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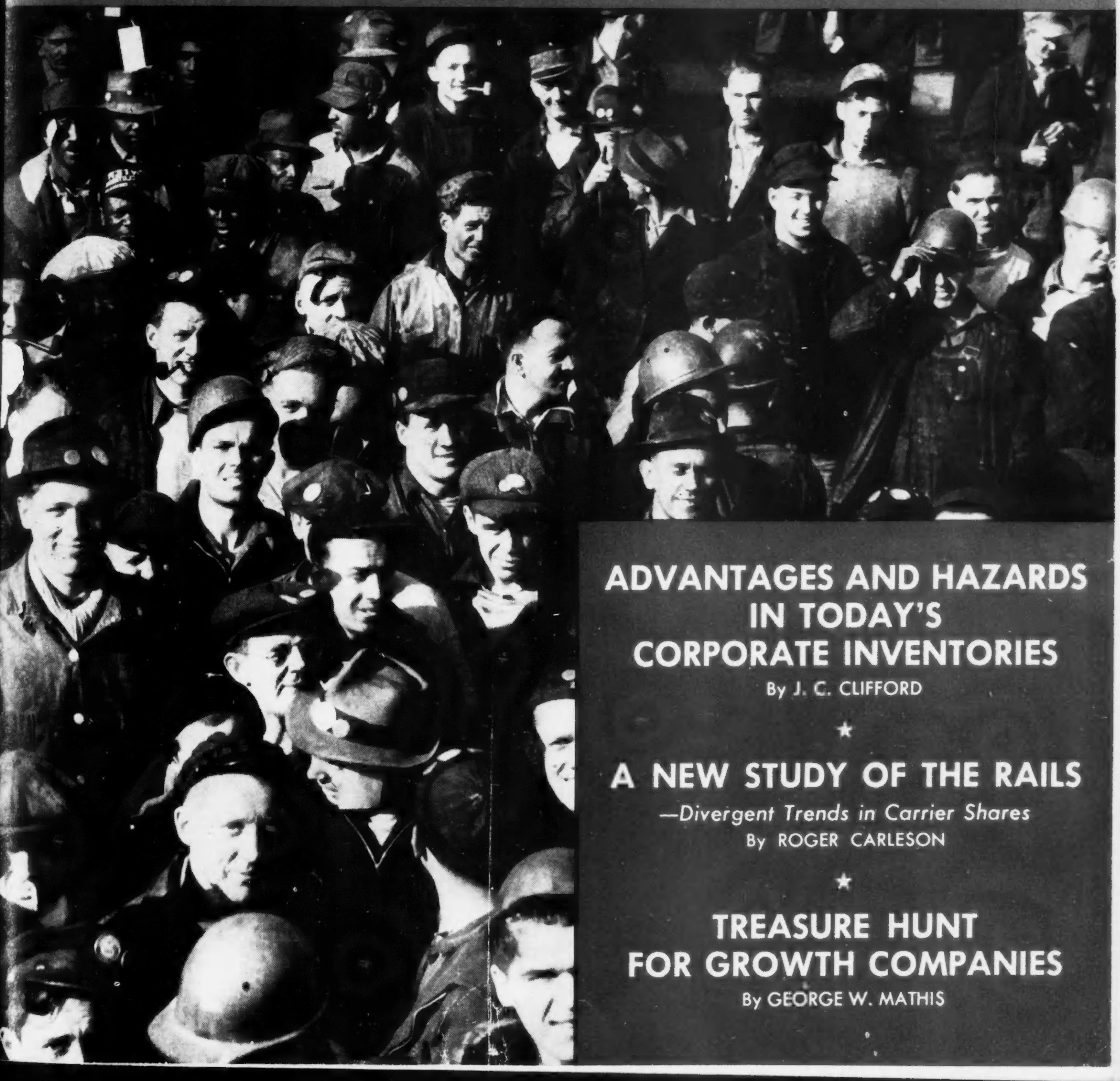
The MAGAZINE of WALL STREET

and BUSINESS ANALYST

MAY 10, 1947 50 CENTS



ADVANTAGES AND HAZARDS IN TODAY'S CORPORATE INVENTORIES
By J. C. CLIFFORD

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A NEW STUDY OF THE RAILS
—Divergent Trends in Carrier Shares
By ROGER CARLESON

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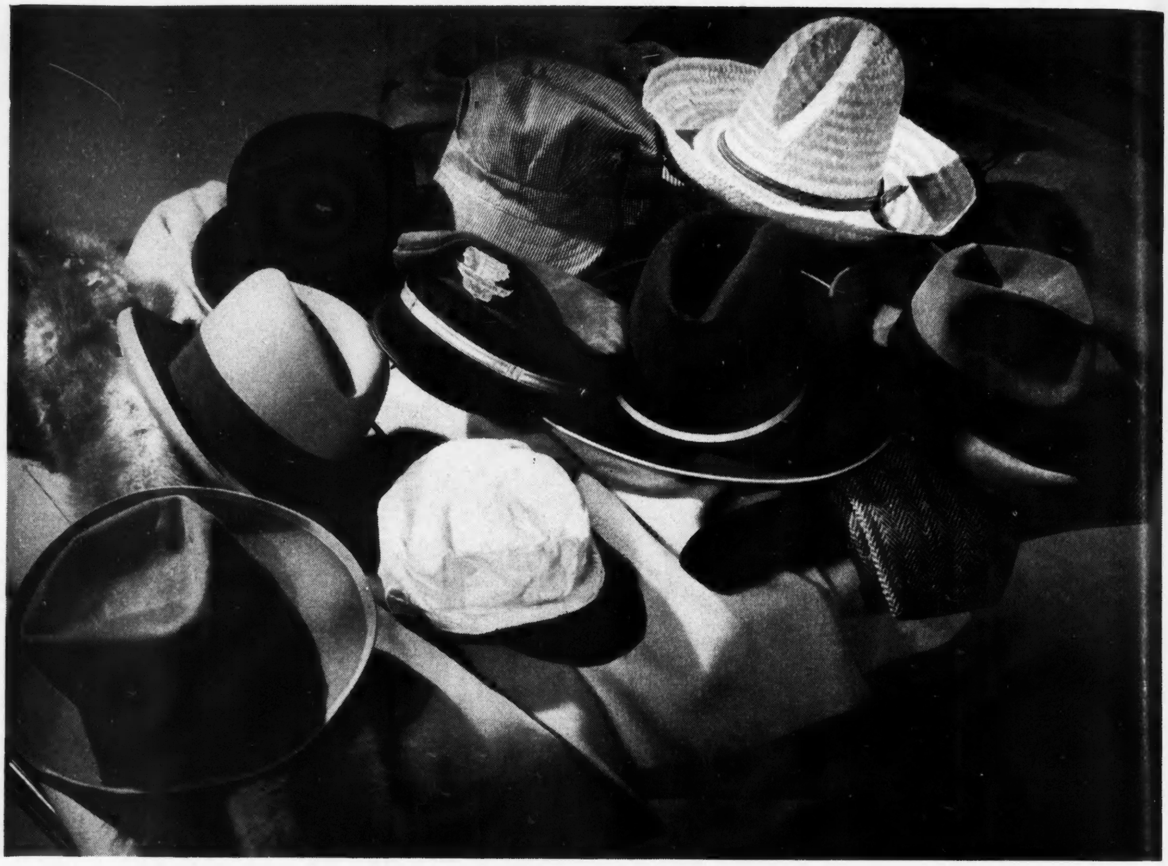
TREASURE HUNT FOR GROWTH COMPANIES
By GEORGE W. MATHIS



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and BUSINESS ANALYST

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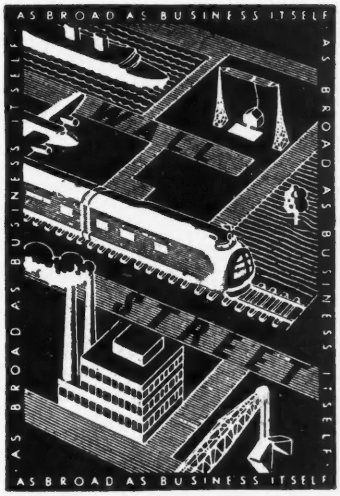
Consumer Resistance Turns Constructive

Photo by Press Association

In response to President Truman's plea for lower prices, many retailers through the country have formed associations to experiment with an across the board 10% price cut for their goods. While in Newburyport, Mass., where the plan originated, sales leaped 65% in the first week as customers packed the stores, and the program has been extended, replacement problems challenge widespread success of the plan. All now depends upon what the manufacturers will do.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher*



The Trend of Events

FIVE DANGER FLAGS . . . Murray Shields, vice-president, Bank of Manhattan, presented some sound advice for his audience in the course of a recent speech. So timely and straight to the point were his remarks that they deserve to be passed along in essence. Mr. Shields feels that all business men should recognize the presence of five danger signals now clearly waving right ahead, and become alert in planning to meet the threats they forewarn. (1) The sharp rise in commodity prices, now higher than at their peak in 1920, can speedily build up trouble if they continue to climb, for their eventual drop may bring serious consequences to the entire economy, especially if the downtrend is abrupt. Already there are signs of price weakness for some commodities, and in more than one case distant futures are well below spot prices. (2) The 25% rise in business inventories within 8 months, amounting to $7 billion, presages possible danger in the offing. Over enthusiasm to build up stocks at a high price level has often caused enforced and serious losses in former periods. (3) The long sustained decline in the stock market shows that average investor opinion, despite many glowing reports of good earnings, is convinced that difficutl times are ahead. (4) Consumer resistance to high prices has passed the fanciful stage, for a growing number of people have a smaller margin of spendible funds left after essential outlays. The transition from casual to cautious spending is well under way. (5) While hourly earnings are still on the up and up, the ordinary cost of living items absorb so much of weekly budgets that purchases of many durables is becoming more difficult all the time. High taxes, too, are a check upon purehasing power.

While none of these danger signals gives definite proof that a serious depression confronts the economy, it would be unwise for business men to disregard them. Rather would it seem prudent for managements to avoid inventory speculation, anticipate erratic price fluctuations by holding supplies of individual commodities closely in line with near term requirements, stick closely to improve efficiency and push sales programs aggressively. As for financial and credit policies, the uncertainties now piling up emphasize the wisdom of limiting debt to long term borrowing where capital needs must be met, or by recourse to equity financing.

The Magazine of Wall Street feels confident that business leaders will commend Mr. Shield's soundly based reasoning, and shape their policies accordingly. In like manner, they will second his views that once the Nation has successfully met the readjustment test of the current economic phase, technology will serve to lead us on into an era of unparalleled prosperity.

GUARANTEED SMALL BUSINESS LOANS: Now under consideration by the Senate Banking Committee is a bill which would authorize Federal Reserve Banks to guarantee, in part, loans by chartered banks, especially to small enterprises in need of capital funds. Such loans would run for a term not to exceed ten years. This measure would also return to the Treasury about $139 million originally granted to the Reserve Banks for the purpose of making direct loans to industry. Aside from suggesting minor amendments, Marriner S. Eccles, FRB chairman, is supporting the bill, backed by both the Commerce and Treasury Departments.

Mr. Eccles feels that when enacted the bill would

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907 — *"Over Forty Years of Service"* — 1947

facilitate the raising of necessary capital for small business concerns unable to raise it in any other way. On the other hand, John D. Goodloe, RFC chairman, has registered his opposition on the ground that should a national financial crisis occur, the results of such a program would weaken the immensely strong banking status we have built up.

Soberly appraised, it would seem as if the arguments on both sides of this proposal were somewhat overlooking the practical aspects of the situation, although beyond any doubt everyone would like to give a lift to little business. A small business, per se, leans heavily upon the ability of a restricted executive personnel to achieve success, and in the absence of a proven record for efficiency the hazards of eventual failure are substantial. Granted an individual business man had a sound idea and first class reputation, he should experience little difficulty in raising capital, as countless others have done. If he fails in his endeavor with outsiders, and his bank is reluctant to help him out, it hardly seems possible that the Federal Reserve Bank would uncover many situations worthy of their serious consideration. Fundamentally, it should be left to private bankers or friendly individuals to provide long term capital for budding enterprises, and there is plenty of money floating around seeking just such an outlet. All in all, it seems likely that the proposed program would produce negative results, in which case it could neither endanger the banking system nor be far reaching in its benefits to small business.

FARM PRICES . . . Despite, or perhaps because of, the current wave of prosperity enjoyed by agriculture, farmers should be made aware of a coming change in their economic status. Not that they, like other segments in the economy, may not envisage an era soon to emerge when their bank accounts should continue to fatten by normal standards, and technology tend to brighten rural living. Fact is, that our entire economy is entering one of its periodic readjustment phases at a time when prices for both farm lands and food products are at precariously high levels. Just because our Government is obliged to support farm prices until January, 1949, does not mean that the farmers can afford to sit by in comfort for a year or more while other forms of industry struggle with problems now shaping up. As living costs are measured so importantly by prices for food, and most farm products are now far above parity levels, the farmer can blame no one if snipers from every direction select him as a logical target in the effort to stem the current inflationary spiral. By hook or crook the cost of foods must be brought down to more reasonable levels to stabilize the economy, even if this means lower profits for the producers. To hasten the process of readjustment the farmers have it within their power, and without undue sacrifice, to start price cutting at the spot where it would do the most good. Unless something of this sort occurs, the agriculturists will experience a disastrous fall when their current props are finally removed, and history has taught them what this would mean.

With prices of farm land now at a level 92% above prewar because of the abnormally high return upon capital invested in this field, the approaching certainty of lower yields points to a decline in land values, and here too the drop may be abrupt. Fortunately enough, several billion dollars of farm mortgages retired in recent years minimize the danger of foreclosures, but even the most affluent farmers may find themselves stuck with fancy priced land. It would be well if the Department of Agriculture, with its close contact with agriculture, could undertake to inform the farmers as to economic facts and persuade them as a matter of self interest to cooperate in the period just around the corner by accepting gradually lower prices, without awaiting the impact of overwhelming forces.

GOOD NEIGHBOR MEXICO . . . President Miguel Aleman's courteous and prompt return of President Truman's recent visit to the Mexican capital was a most auspicious event. In view of the troublesome times abroad, Senor Aleman's eloquent protestations of friendship for his next door neighbor gives valid evidence that "hemispheric solidarity" is rapidly approaching the realistic stage. Considering that only a few years ago Mexican politics and economics were giving our country much to worry about, it is indeed heartening to hear our neighbor to the South strongly approve our foreign policies and stress the need for all of the 21 Latin-American Nations to follow suit. Despite radical differences in language customs and race, the United States at long last is nearing a time when the Rio Grande may become no more significant as a boundary than the St. Lawrence to the North of us. That this new found leaning towards happy interrelations and determination to stand shoulder to shoulder against aggressors from any direction is one of the most hopeful signs of the times has been made certain by Mexico's able and forward looking chief executive.

From the angle of potential trade expansion between our two countries, President Aleman's visit also offers peak encouragement. Under able leadership, Mexico in recent years has made giant strides towards industrialization along modern lines. American busines men conscious of sound opportunities unfolding across the Southern boundary are now lavish in investing substantial sums to promote the economic growth of that populous and rich nation so close at hand. And the scale upon which Mexico itself is planning industrial expansion is indicated by reports that she has applied for a $500 million credit from the International Bank and a loan of $175 million from the Export-Import Bank. It is to be hoped that the way will be cleared for alleviation of any and all financial problems which now face this up and coming neighbor of ours, for in the near term Mexican markets can provide one of the most valuable outlets for our goods available to us. When the Good Neighbor policy has become thoroughly established from the Arctic to Cape Horn ,the economic and political consequences for the 21 Nations wil be of incalculable benefit to all. It is well that when President Aleman reports to his people he can enthuse them over the welcome he received here and point with pride to the Mexican contribution towards hemispheric solidarity.

As I See It!

BY CHARLES BENEDICT

The Fallacy of "Counting" on a Depression

WHEN an individual or a nation adapts ideas, it absorbs the good with the bad, so that when a little wishful thinking is added, conclusions can be distorted to fit in with any specific pattern which you have in mind. This is particularly true when the plan is a destructive one. For, when thinking is warped by loss of objectivity, you actually seek to make conclusions tally with what you would like to have happen. This is where Russia makes her mistake in projecting and counting on economic disaster in this country.

Due to the rigidity of Soviet thinking, which has its foundation in Marxist philosophy, they have for 30 years made great errors in projecting economic and industrial trends, as Marx based his forecasts on formulas which existed at the time and which are not operative today. In fact, his prognostications did not work out as he had contemplated because of the narrowness of his concept.

In a similar way, Russian economists, by using the business and stock market statistics operative after World War I, have been carried away in forecasting the economic prospects for the United States. They are relying mainly on data relating to an entirely different set of conditions than exist today. In fact, they are predicting economic disaster on material which for free-thinking and reasoning individuals has merely an historic interest. Thus, the Russians have arrived at conclusions that are highly erroneous, since we are experiencing conditions which are in many ways without precedent due to war time regulations which have brought decided changes in our monetary system, in the status of our industry and in the stock market.

Therefore, when Russia predicts a severe depression, her thinking is based to a large degree on the aftermath of 1929 when the great excesses on a vastly extended position collided with a weakened financial structure.

Today the situation is entirely different. The possibility of great bank and business failures do not exist because, profiting by the experience after the last war, our government bore the risks of the new industrial capacity needed for our war machine. This time, therefore, industry was not obliged to absorb the cost of new plants or undertake vast expansion plans on its own account. As a result of this, companies were able to amortize and charge off these terrific items for plant expansion and other costs resulting from war necessity in such a way as not to impair their capital structure.

Who's Looking Over The Fence?

Chase in the New Orleans Item

At the same time the regulations instituted in banking since the 30's corrected and strengthened our entire banking system so that today we need have no anxieties on that score either. Regulation of the stock market, too, and the elimination of margin buying of securities, prevented excessive speculation in stocks so that this time investors are in no danger of being wiped out as they were when stocks were allowed on 10-20% margin subject to broker's call. All in all, our position is one of great strength. Our problems to a large extent arise from the need for marketing our great excess of productive capacity. But this is a matter that calls for intelligent planning along lines in which we have had a great deal of experience and for which the machinery already exists in a large measure.

As a matter of fact, we have already made great strides in export trade, which shows every sign of continuing to increase because the world needs the kind of goods we produce and in great quantities. Aware of this situation Russia is seeking to delay the process of reconstruction and rehabilitation necessary to set up machinery that would enable these people to purchase our goods to the extent needed to carry us through this interim period of readjustment and consolidation. At the same time through labor disturbances, sabotage of one kind or another, the Red 5th column in our country seeks to disorganize in our home territory.

It is only if we permit Russia to disrupt our plans is there any possibility of a severe depression. In fact, the success of the whole Soviet system will always be based on their ability to (*Please turn to page* 182)

Wisest Market Policy Now

Market action has improved substantially over the last fortnight, aided by some news developments, but largely on professional operations. The bull theory that the now spreading business recession has been discounted probably requires and will get a further testing. There is no change in the conservative policy we have previously recommended.

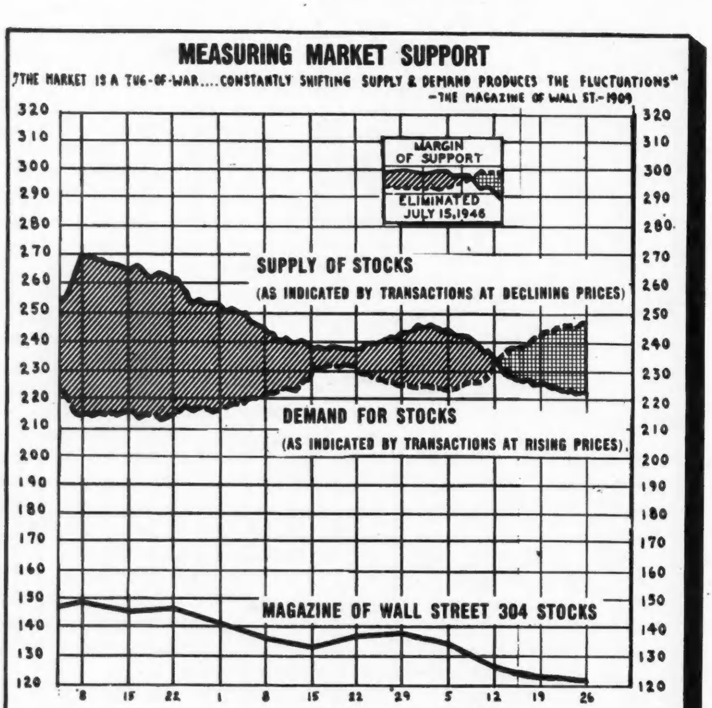
By A. T. MILLER

THE market's performance has changed considerably for the better since our last previous analysis was written a fortnight ago. The first question is whether the change represents just another bear-market rally, or something more significant. If only a rally, the second question is whether it is likely to be of minor importance or whether it may perhaps be capable of developing into a sizable intermediate recovery, comparable, for instance, with the 20-point upswing in the Dow-Jones industrial average from the October, 1946 low to the February recovery high.

These questions have to be raised, if for no other reason than to aid in keeping a flexible outlook as more adequate evidence unfolds—but they cannot be answered with any degree of assurance, as we see it, on the basis of market action, or any change in economic factors, during the short time since the persistent decline from the February high was stemmed and then reversed.

For our own part—the pros and cons long having been fairly evenly balanced, with the major trend unclarified by either a rise through the February high or a decline through the previous bear-market low in the industrial average — we have no preconceived bearish or bullish position to argue for. As long as conflicting factors and inconclusive technical indications add up only to uncertainty, there is no sensible alternative to a selective, middle-road policy under which partially-invested positions in sound common stocks are held, along with prudent cash reserves by way of insurance. What has happened over the past fortnight is not enough to call for or justify any change in this policy.

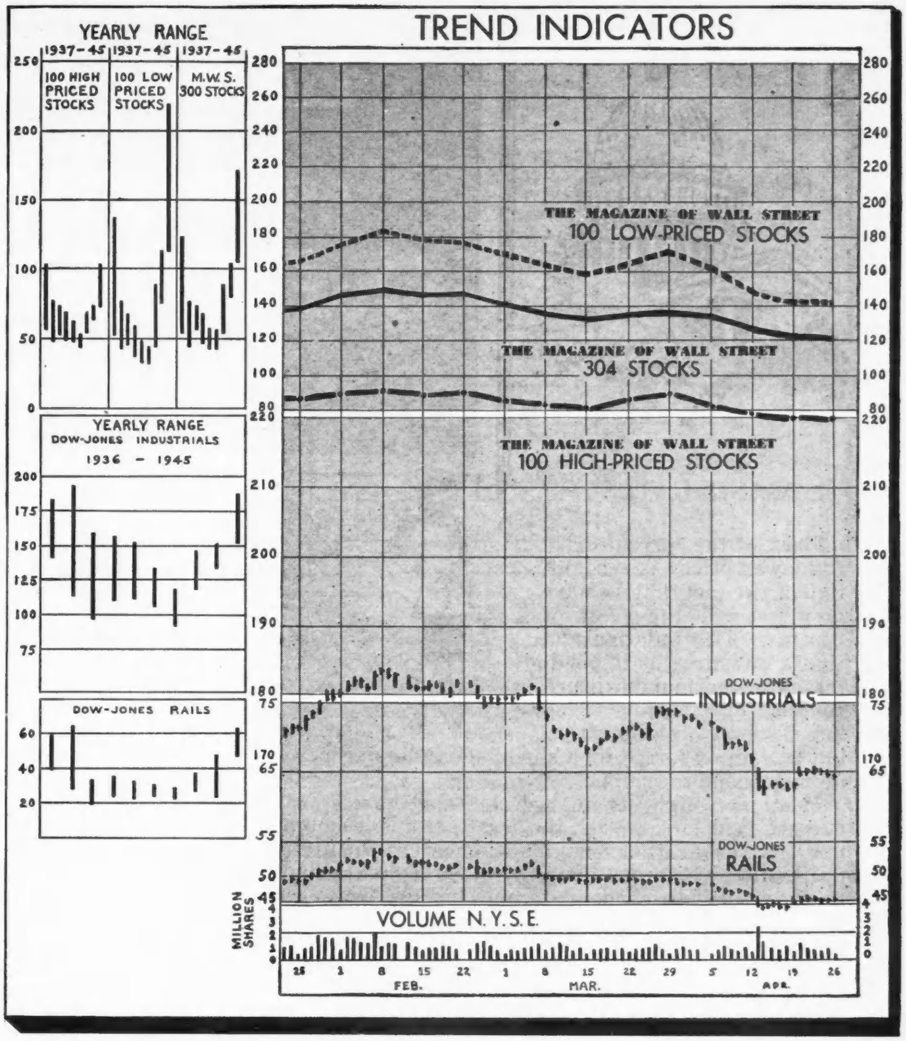
On the immediate technical evidence it can be said that,at worst, a further downside test has at least been deferred, perhaps for some time. Yet against this, it cannot be said that the medium-term outlook has been made significantly less doubtful. Experienced analysts will agree, as they could not have done a short while ago, that there is little, if any, risk that the industrial average will plummet to a new low—barring unpredictable and calamitous news—within the next two weeks. But will the averages be above or below the present level six months hence? That is anybody's guess in what has been a saw-tooth, trendless trading-range market (at least in the daily industrial and utility averages) for nearly seven months. At the present time, the only tenable assumption — with the industrials remaining in a technical "no-man's land" — is that it is still that kind of market.



The Reasons Behind The Rally

One can cite recent news developments which have furnished "ammunition" for the rally. There was the steel-wage settlement, with which the first brisk upturn in stock prices coincided, and which was followed by settlements in the automobile and electrical equipment industries, all on fairly moderate terms. The first-quarter earnings

reports, despite some exceptions, have made generally good reading, with special interest in that of United States Steel. The uncommonly favorable and assured outlook for the oil industry—to which we have repeatedly called attention in previous issues on other pages — was dramatized by the dividend increases of Standard Oil of California and Standard Oil (New Jersey). Chrysler showed earnings power at a rate of nearly $20 a share for the year, should the first quarter pace keep up, and announced a two-for-one split.



But in little of this was there any surprise, at least for informed investors and analysts. As for the wage settlements, there had been no real fear of strikes this spring in the mass-production industries; and while the terms were moderate, they were not more so than had been expected. Moreover, in the degree that they raise production costs permanently and make it more difficult to get inflated prices down, the settlements cannot be considered basically bullish, but the reverse. So far as earnings are concerned, it had been apparent for some time that the first quarter aggregate would set a new all-time peak — in all probability, the peak for the year and the current business cycle. You may say that a "high" level of earnings is favorable; but a "peak" level of earnings, implying that the next change will be downward, has never been favorable in a continuing stock-market sense.

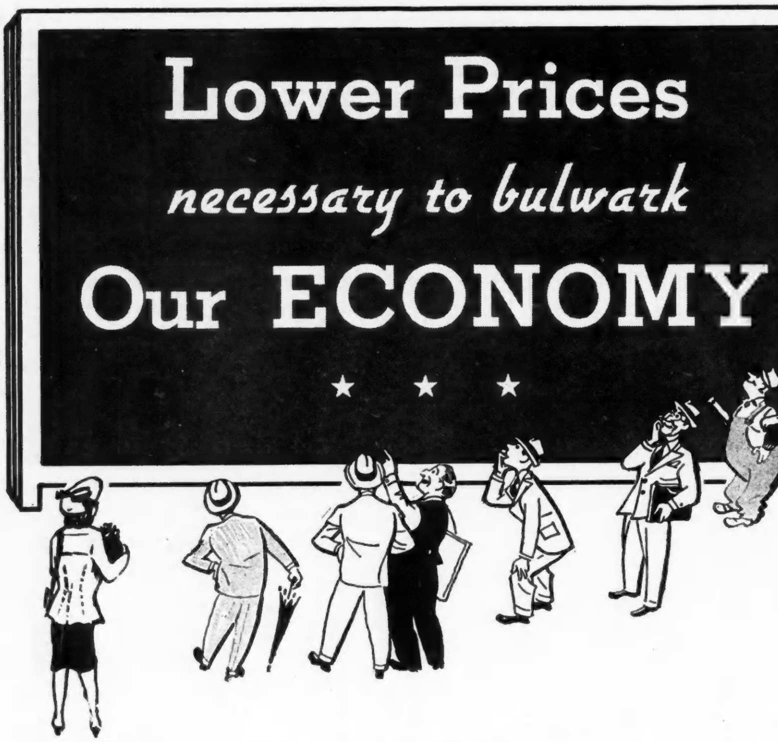
Unless really sensational and unexpected, news (or earnings reports) never "make the market." They only color it. We have no doubt that the origin of this rally was primarily technical. The industrial average went close to its former bear-market low, failed to break it—as the rail average had done—then hovered a little above the lowest prices of the move for a week or so. Such a situation can always be expected to bring short-covering and trading purchases of mainly professional character. Whether the rally can be kept going is something else again, to be demonstrated. For the industrial average (about 174 as we write) a resistance level is indicated at about 176; another at 179 (approximately the March rally high) and, of course, a much more significant one around 182-184, the area of the February recovery high.

So far at least, the rally has not amounted to much except in pivotal industrials, and not in all of those. Rails and utilities, which paced the preceding decline, have been sluggish, especially the rails. The moderate volume—not so much as a single million-share session thus far—betokens only limited "public investment" interest. Our low-price stock index, although slightly higher, shows no significant revival yet of speculative demand. The position of our Support Indicator is, at best, neutral. Its last decisive signal was bearish, and has yet to be reversed.

Testing A Theory

The theory of the bulls is that the business recession, foreshadowed for many months, has been discounted. There has been only a partial test of that theory so far; namely the response of some stocks and groups of stocks to recession news in certain soft-goods lines, which is the only area in which profits have already turned down, in some instances quite sharply. Since the stocks in question made new bear-market lows, by a decisive margin, in the last period of market weakness, the validity of the theory would seem to be open to some question, to put it mildly. At any rate, it will get additional testing without much wait; for the recesion is under way and spreading, and is likely to pick up considerable momentum over the next few months. There have been heavy cancellations of orders, both domestic and foreign. In the durable-goods field, only the automobile industry can now count on remaining (*Please turn to page* 182)

Lower Prices *necessary to bulwark* Our ECONOMY



By
WARD GATES

Back of the current drive for lower prices is recognition of the fact that we have now reached the crest of postwar price inflation and that a downturn is impending, not a normal downturn resting on improved demand-supply relationships, but a reversal forced by a shrinkage in buying power of the consuming public.

What is sought is an orderly tapering off from current peak prices with the least possible economic unsettlement, rather than allowing prices to stay up until they are forced down by sheer exhaustion of markets due to inadequate purchasing power. In other words, we want to avoid a price collapse that inevitably would lead into a business slump with painful economic and political consequences.

The threat of just such a train of events is unmistakably evidenced by mounting consumer resistance which already has led to reduced output in certain lines of business. The squeeze on the consumer has been very real, as shown in the appended tabulation of principal cost of living items. In the face of this, the huge pent-up demand on which we banked so heavily for postwar prosperity has remained largely ineffective. Instead, reduced buying power has begun to limit demand progressively, and it is realized that diminished demand ultimately must lead to production cutbacks in an ever-widening circle, resulting in unemployment and price collapse. Hence the urge for lower prices, for an orderly adjustment of the general price structure. This is to serve a double function: By shoring up purchasing power, lower prices are also to cushion the deflationary trend in the offing. That at least is the aim. Whether voluntary price action will turn the trick is another matter.

How the Cost of Living Has Increased

(Increase over 1945 average)

House Furnishings	up 23%
Clothing	24
Food (retail)	31
Textiles	39
Farm Products	40
Building Materials	51
Food (wholesale)	53

Excessive Prices Breed Recession

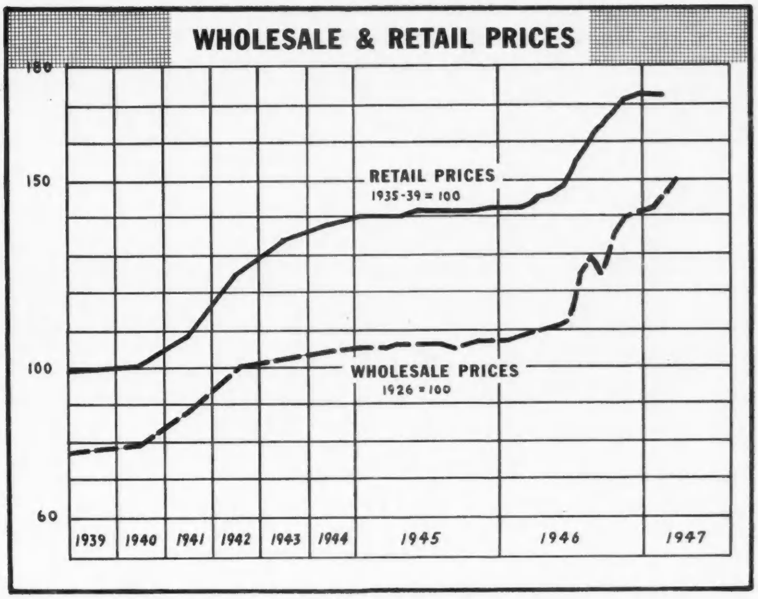
Without question, we have reached the point where the surest way of bringing on a recession or depression is maintenance of current excessively high prices. They lead either to continuance of a deadly inflationary price-wage spiral, with a severe economic "bust" at the end, or else—as public purchasing power dwindles—buying stops; production stops; unemployment sets in; prices collapse; profits vanish. The chain reaction is well known; we have undergone this experience after the first World War and paid heavily for it.

No one doubts that lower prices is the best way to sustain flagging purchasing power, and the real road to prosperity; for lower prices benefit everyone while wage increases don't. The latter benefit only the direct recipients but tend to raise prices for all. Actually, what will bring down prices best and quickest is increased production. Only in this manner can we give increasing wage benefits to workers. Increased production, greater worker productivity, is the only real solution.

Business cannot do the job alone, and efforts to "talk prices down" will hardly have the full desired effect. Such efforts ignore the fact that prices are the connecting link for every kind of economic activity, that "one man's prices are another man's costs." Disorganized, scattered price cuts would accentuate rather than correct the existing unbalance in our general price structure. It is for this reason that appeals for lower prices have met, at least so far, with relatively limited response. Price slashes so far have occurred chiefly at the retail level, the wrong end of the distribution line. Few wholesalers and manufacturers have been falling into line for the simple reason that they could hardly do so without incurring substantial losses.

This doesn't mean that price readjustment must await restoration of balance in supply-demand conditions. There are a good many areas in our economy where prices can be lowered without adverse effect. The fact that many products and commodities today

yield an unusually large return, means that there is leeway for price adjustments without destroying the profitability of business. Moreover, at current high level of industrial activity, productive efficiency is increasing—an improvement that can and should be shared with the consumer in terms of reduced prices. The strong upsurge in corporate earnings in many fields is ample evidence that present business conditions permit lower prices and still leave fair profit margins, fully comparable to normal experience.



Wages, Taxes Influence Prices

However, to lower prices effectively throughout our economy, more is needed. Wages for instance are indissolubly linked with prices, yet a new pattern for a general wage rise in basic industries has just been worked out, an action hardly conducive to price reduction. Whether the latest wage boosts can be absorbed without increasing prices, remains to be seen; the test will come in the weeks ahead. Higher wages in the steel industry, for example, have removed the possibility of an early price reduction of steel products, and steel is an important cost item in numerous manufactured items.

Taxes are another of the primary factors that have a major impact on prices. They have a direct bearing on the cost of producing every item. Unnecessarily high taxes, thus, are not compatible with the aim of obtaining a broad lowering of the price structure, quite apart from their effect on consumer purchasing power.

In short, while private enterprise has now the responsibility for prices, constructive cooperation of labor and Government is indispensable. Government must help by establishment of a sound fiscal and economic policy, and particularly by straightening out its own price policies. If the cost of living is to be brought down to any considerable extent, food will have to lead the way; but Government policy supports food prices at current high levels rather than the reverse.

The part that labor must play is obvious. We can never get a declining price level against a background of continued wage rises. Real wages of American labor are far above prewar. In its own interest, labor should call a halt to demands on production, and base future wage demands on increased efficiency only.

Joint Action Essential

In short, what is required is real statesmanship of industrial leaders and labor leaders alike. It must not be forgotten that all of us, in a high-standard-of-living economy, are interdependent. Each provides a market for the goods and labors of others. That is why nothing less than sane statesmanship, or at least a heightened sense of responsibility by each group will give us full production, an ample market, prosperity and reasonable security. Only by joint action of all parties concerned can we succeed in recoving economic stability.

The need for a broad downward movement in living costs is widely recognized. All industries and services are feeling the public pressure for lower prices, which is likely to increase before it diminishes. The entire price-wage-cost structure is full of distortions, the aftermath of the economic upset of war and wartime controls. However, the task of correcting these maladjustments can hardly be fitted within any specific formula. Rather, the needed correction is bound to be accomplished through a multitude of price changes in both directions. And the time element is particularly uncertain in such a readjustment which after all is not exclusively a purely domestic affair. In previous discussions, we have pointed out the impact of heavy foreign demand for our goods and foodstuffs on domestic prices. This influence will hardly cease to be operative in the near future, and demand-supply factors will continue to be important, even decisive, price

Photo by Press Assoc.

President Truman has put the problem of lower prices up to business but constructive cooperation by labor and Government are essential

Net Income of Leading Industry Groups for the Years 1945 and 1946

Net Income Is Shown as Reported—After Depreciation, Interest, Taxes and Other Charges and Reserves, But Before Dividends (In Thousands of Dollars)

No. of Cos.	Industrial Groups	Net Income After Taxes 1945	1946	Per Cent Change†
23	Baking	$ 29,093	$ 60,872	+
16	Dairy products	38,989	65,454	+ 67.9
17	Meat packing	34,825	70,461	+
26	Sugar	28,015	39,154	+ 39.8
59	Other food products	110,453	182,712	+ 65.4
16	Soft drinks	36,661	39,111	+ 6.7
34	Brewing	22,587	39,632	+ 75.5
12	Distilling	65,362	164,001	+
23	Tobacco products	76,634	100,690	+ 31.4
46	Cotton goods	28,760	102,896	+
13	Silk and rayon	14,280	42,419	+
7	Woolen goods	11,986	30,328	+
20	Hosiery, knitted goods	7,990	21,779	+
41	Other textile products	36,113	88,828	+
31	Clothing and apparel	14,909	35,430	+
9	Leather tanning	3,623	5,030	+ 38.8
21	Shoes, leather products	17,262	26,757	+ 55.0
27	Tires, rubber products	66,152	136,759	+
24	Lumber	20,165	43,764	+
14	Furniture, wood products	6,316	11,915	+ 88.6
70	Pulp and paper products	61,254	140,163	+
28	Printing and publishing	17,467	31,478	+ 80.2
59	Chemical products	216,701	321,830	+ 48.5
26	Drugs, soap, etc.	74,312	121,963	+ 64.1
17	Paint and varnish	20,675	36,682	+ 77.4
40	Petroleum products	596,662	760,592	+ 27.5
23	Cement	4,634	17,186	+
11	Glass products	33,513	52,136	+ 55.6
37	Other stone, clay products	29,047	61,819	+
51	Iron and steel	183,531	273,336	+ 48.9
12	Agricultural implements	54,671	45,520	— 16.7
64	Build., heat., plumb. equip.	42,359	62,051	+ 46.5
71	Electrical equip. and radio	149,958	114,547	— 23.6
55	Hardware and tools	40,155	56,239	+ 40.1
39	Household equipment	16,927	32,618	+ 92.7
135	Machinery	91,240	106,237	+ 16.4
24	Office equipment	33,052	58,173	+ 76.0
26	Nonferrous metals	110,710	136,685	+ 23.5
72	Other metal products	58,760	61,902	+ 5.3
22	Autos and trucks	246,743	128,754	— 47.8
57	Auto equipment	51,940	38,041	— 26.8
23	Railway equipment	36,158	42,081	+ 16.4
26	Aircraft and parts	83,339	4,182	— 95.0
5	Shipbuilding	11,775	10,175	— 13.6
39	Misc. manufacturing	62,180	73,973	+ 19.0
23	Coal mining	23,858	35,892	+ 50.4
28	Metal mining	24,952	27,087	+ 8.6
44	Oil and gas	31,012	36,504	+ 17.7
19	Chain stores—food	20,898	45,446	+
53	Chain stores—other	97,520	197,344	+
37	Department stores	55,020	111,465	+
6	Mail order	61,105	159,517	+
133	Class I railroads	446,762	288,534	— 35.4
33	Traction and bus	23,772	35,692	+ 50.1
10	Shipping	10,471	24,014	+
12	Air transport	11,755	D-879	—
188	Electric power, gas, etc.	443,137	558,291	+ 26.0
50	Telephone & telegraph	198,013	216,711	+ 9.4
15	Amusements	64,473	122,582	+ 90.1
39	Restaurant and hotel	9,953	13,784	+ 38.5
16	Construction	4,101	6,733	+ 64.2

D—Deficit. †—Increases or decreases of over 100%.
Source: National City Bank.

determinants. At this time, heavy export requirements are not only strongly sustaining prices in a good many lines of business, but also production that otherwise would lag under flagging domestic purchasing power.

The business community has recognized its responsibility to cut prices wherever business costs permit. Undoubtedly, by careful planning, by elimination of wasteful production methods and practices, by expanding or modernizing facilities, and by increasing productivity, business can help greatly in dispelling the threat inherent in our price situation. Its willingness to cooperate is hardly open to question, for business is fully aware of the danger of excessive prices, and of the importance of achieving a sound structure of fair prices. It knows full well, that price readjustment can hardly be effected without some economic recession and particularly that a turn in prices is inevitable, once shortages are filled. It also realizes how easily a recession can deepen into a depression if proper action in the price field is lacking.

Still, most business leaders question the practicability of a parallel rule for the price declines. Wage increases are affecting production costs in varying degree and producers differ greatly regarding current profits from operations. That is why some prices currently are being pared at the manufacturers' level while others are being raised. Not all can cut prices out of profits.

Net Profit Trends Differ

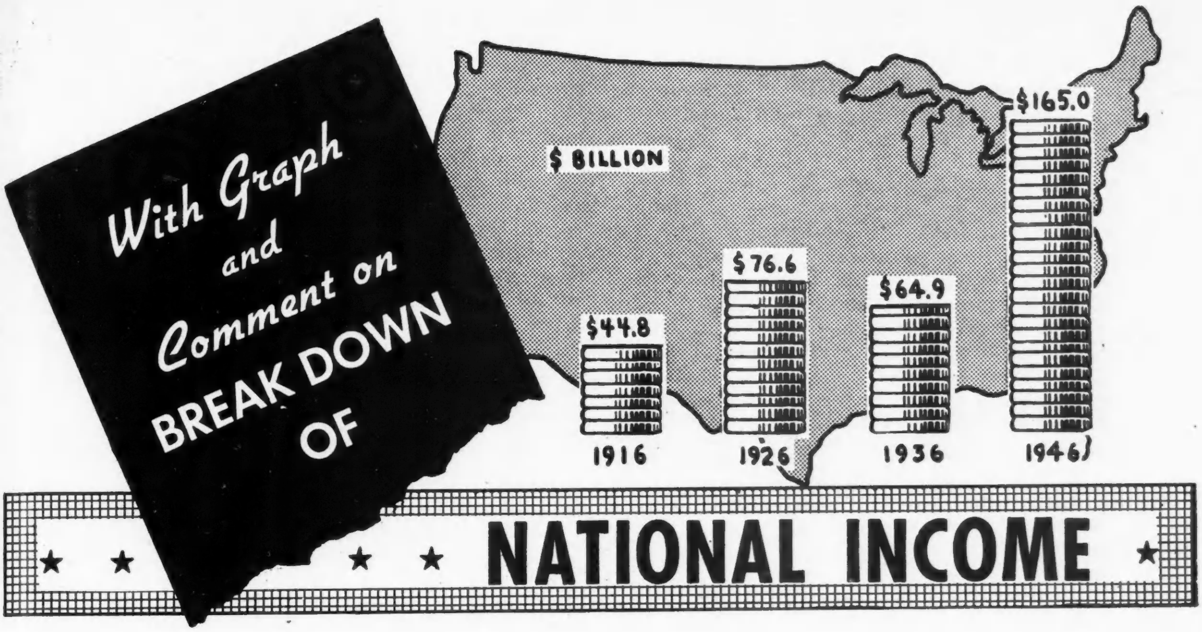
The accompanying tabulation shows net profits of leading industrial groups for the years 1945 and 1946, and the percentage change registered. In most cases profits have increased materially but it must be added at once that the record profits shown for a good many groups can not expect to be repeated. Higher costs and mounting pressure on selling prices —in a good many instances—are already leading to marked inroads into earnings. This applies particularly to such groups as textiles, distilling, tires and rubber goods, processed foods, retail merchandising, amusement, transportation and others.

Also, we find lower profits (in 1946) in electrical equipment, radio manufacture, in the automobile industry, in the farm machinery industrp, in aircraft manufacture and shipbuilding. Most of these industtries have again been subject to wage demands, and in view of the increases granted, an overall reduction in prices is hardly feasible unless compensated for by higher worker efficiency or greatly stepped up volume of production. At best, only selective price reductions appear possible. The problem in these and similarly situated industries highlights the fundamental fact that no business man is wholly the master of his own decisions as far as prices are concerned. No matter how public-spirted he may be, he cannot do much by himself to control the final price that consumers must pay.

Price Cuts At The Wrong End

We have remarked before that price cuts in the retail field have started off our national psice reduction campaign at the wrong end of the distribution line. Such price cuts are of course to be welcomed, if they tend to pare excessive profit margins. Much of them have been largely in the nature of inventory sales. But unless price (*Please turn to page 180*)

With Graph and Comment on BREAK DOWN OF NATIONAL INCOME



Under our system of Free Enterprise the complexities of "who gets what and how much" tend to baffle the most experienced mathematicians and economists. So easy is it for almost anyone to establish conflicting conclusions on this subject that a mere arrangement of figures can produce this or that end results according to the whim or skill of the compiler. To discuss the matter in terms of percentage or in terms of dollars, for example, can create widely varying impressions, accidentally or otherwise. Currently, of course, the wage-price battle has brought to the front endless claims and counter claims involving the relationship of income to living standards, the profits of industry and the onward march of happier living in the United States. A sober and unbiased appraisal, accordingly, of certain aspects in the constantly changing picture of income distribution may prove constructive.

The National Income

At the outset it should be made clear, accordingly that our comments merely involve the National Income, without any attempt to drag in consideration of the flux in the value of the dollar or of living standards. For the benefit of those who are not posted, the National Income represent the net profits of corporations after allowance for taxes, reserves, etc., plus the net income of farmers and unincorporate business, and the total compensation of individuals in the way of wages and salaries, as well as interest and rents received. In discussing these half dozen components it should be noted that in the case of corporations taxes have been deducted, whereas this is not true in the other instances. For purposes of comparison an analysis might seem more rational to use figures which show the Disposable Income of individuals, for this allows for tax deductions also, but for our purposes this does not seem necessary.

By the dollar yardstick the National Income represent the all inclusive and only pool from which the various types of income can be derived. In other words there is just so much to go around and any variations in the proportionate distributions from year to year carries interesting significance. On the chart the reader will find an opportunity to visualize the annual divisions of income established since 1929. In that boom year the National Income rose to a then record peak of $83.3 billion, of which about 65% went for salaries, wages and bonuses, 6% to agriculture, 11% to incorporated business, 13% for interest, rents and royalties, and the balance represented the net income of firms and proprietors. In the depression year of 1932 when the National Income fell to $40 billion, these percentages underwent a marked change: wages and salaries got 78% of the pie, net farm income 3.7%, while incorporated business piled up a deficit of $3.6 billions. Unincorporated business in that unhappy year, however, earned $3.4 billion or 8.5% of the total, against 11% in 1929.

The above figures illustrate in particular the relative success or failure of three main groups, wage earners, farmers and corporations, in attempting to hold their own under a sudden and drastic change in economic conditions within a short period—that is, as to the share of National Income coming to each. Skipping ahead until the outbreak of World War II, it will be found that in 1939 the National Income had grown to a level of $70.8 billion and in that year the group percentages were as follows: income of employees — 68%, corporate net — 6%, farmers—6% and income of proprietors—15.8%.

At The End Of 1946

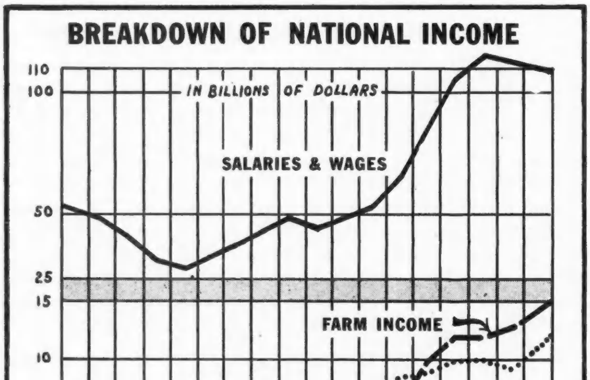
During war years and up to the end of 1946, as the National Income soared by degrees to the unprecedented height of $165 billion, the scramble for shares of the total assumed a progressive tempo. The score at the beginning of the current year stood thus: employee income—66%, farmers—9%, corporate net—7.3%, proprietors—9%. On balance, therefore, and as the record stood at the close of last year

compared with that of 1939 the farmers had gained by 3%, corporate net income by 1.3%, while the share won by employees declined by 2%. That these divergences do not balance up is explainable by the omission of a few other items of relative unimportance in the picture. In passing, however, it is well to point out that although income from interest has expanded because of Government borrowing, in relation to National Income the percentage has dropped from 10.6% in 1939 to 7.1% as of 1946.

In studying all these comparative figures, they reveal to a certain extent the experience of the groups under widely varying conditions but to use the adjective "competitive" in this connection may not be valid. Farmers may shout for lower prices on the manufactured goods they buy, industrial employees may use food costs as a plea for higher wages, and business may demand satisfactory profits to establish an adequate return upon invested capital. But while the three groups naturally strive to better their respective positions in the economy, they are all on the same team essentially and each strongly dependent upon the others to get anywhere at all. Except where the Government steps in with artificial supports, therefore, the fight outcome depends upon natural forces for its determination of progress, despite common opinion to the contrary.

Status of Agriculture

At the beginning of the current year, it is apparent that agriculture is getting a larger share of the National income than normal, partly because of Federal subsidies, bumper crops and in part because of the tremendous demand for the food which the farmers produce. With a 10 million increase in our population in recent years and with all hands eating more than ever, plus huge shipments to starved foreign nations, there is small wonder that the wartime bonanza for the farmers still brightens their picture. Quite aside from percentages and dollar totals, also, is the fact that during war years farm



population declined by about 5 million. Hence although it has since increased by more than 800,000, it is true that the present large profits accruing to farm operators is being shared by a much smaller number than in prewar. It could well be that mechanization of the farms, still far from its zenith, may permanently give this essential industry a larger and more stable share of the National Income under varying economic conditions, but as operating costs recede the true impact of competition will stem from within its own ranks rather from outside enterprise, or other worker groups. It must be noted, too, that while in a "bust" period like 1932, the farmers' 3.7% share of a shrunken National Income brought in only $1.48 billion against $14.9 billion in 1946, at all times there is a roof for the family and ample food for the table.

Labor's Share

Of especial interest in this study is the 66% share of the National Income won by employees during the record peacetime year of 1946. At no annual period for many years past has this figure been so low. Despite the great strike wave of last year and the loss of more than 100 million man-days of labor, the National Income rose sharply to around $165 billion, and by the year end a record number of some 57 million income earners were at work. As a matter of fact, in terms of dollars, there has been a progressive shrinkage for six years past in total amounts of salaries and wages paid to employees.

The most significant aspect of the above is that wage scales for certain favored or organized groups of labor have risen sharply during last year and now once more have been inflated. Only today, Washington has announced that average weekly wages in manufacturing fields have risen to a level of $47.47, at least regaining a status equal to the best achieved in war years. But in January of 1947 total salaries and wages paid were lower than in any other month since last August, with relative figures of $9,123 million against $9,144 million for September. While from now on the trend as to dollar totals and as to percentages will probably be upward, it becomes more and more apparent that the distortion between wages earned by the 15 million union workers and the 40 million income earners in other groups has become a serious matter. In other words the widely heralded economic gains achieved by the unions have been at the expense of the unfortunate majority, including not only income earners but the vast body of pensioners, civilian employee and people dependent upon income from securities. This situation breeds potential trouble for if purchasing power of a large segment of the population is curtainled, the full production capacity of the factories cannot be utilized and many of the union workers will find that they have priced themselves out of jobs.

According to the Department of Commerce, National Income at the end of March had risen to annual rate of $181 billion, up $4 billion from the February level. As there has been no time yet to reflect the new wage scales now being put into effect in a good many directions, it is possible that unless the much talked of recession sets in during the last half, totals for 1947 may reach surprising heights. In this event a scrutiny of the percentages won by the different groups, when a breakdown of the total becomes known a year hence will provide highly significant data.

Photo by
Ewing Galloway

With Proper Responsibility

LABOR will go from Adolescence to MATURITY . . . .

By P. T. SHELDRICK

RECENT labor agreements, arrived at without the disruption of strikes, in strong contrast to last spring, have been most gratifying. Stockholders have been pleased in spite of the increased wage costs. In the case of U. S. Steel the added payroll has been estimated at $74,000,000 but if the hope expressed when the agreement was signed should materialize, that at least a year of uninterrupted steel production would result, the end results should be well worth the price. The manner in which the workers of other steel corporations have lined up on the same pattern, and the settlements just made by General Motors, Chrysler, Aluminum Corporation, General Electric and others — pose the question "Has Labor Come of Age?"

Of course, it is difficult to be all inclusive when we refer to "Labor." Does it mean veteran organizations like the International Typographical Union? or the International Association of Machinists? or the Amalgamated Clothing Workers?

Probably not. If these organizations are not considered mature after all their years of existence, then there is no maturity for labor.

The question usually refers to the newer, mass industrial unions — steel, autos electrical. In that case the answer must be that labor is growing up, slowly, but has not fully matured.

By and large, the art of collective bargaining has made great strides. We should be in for an era of comparative peace if intemperate legislation does not force too violent a readjustment.

The threat of repressive legislation was not the only cause of industrial peace this spring. Indeed, it is likely that the legislative threat was a secondary or minor consideration.

Many people had feared repetition of last year's paralyzing strikes. But they were not the informed people. Students of the labor scene know that the 1946 situation was unique. They had known and forecast those conflicts in autos, steel, etc. After all, collective bargaining in the mass production industries had not been given a full opportunity to develop. It was born in bitterness in the mid-thirties. The Wagner Act's constitutionality was not upheld until 1937.

The habit of bargaining was slowly taking hold when, bang, came the War. Establishment of the War Labor Board brought most big disputes to Washington. Real collective bargaining was suspended. Worse than that, terrific tensions were built up. War itself brought tension. Long hours, unsettled grievances, mutterings of excessive profits, true or not, made labor-management relationship taut. Both sides said to themselves for months, "Just wait till the war is over — we'll get even."

Industrial relations experts recognize that our experience in 1946 affords no sound basis for conclusions as to the future of collective bargaining in this country.

For instance, the Labor Committee of the Twentieth Century Fund says: ". . . when the war ended, the machinery of collective bargaining was still new and untried, except in very limited areas of our industrialized economy. At the same time the nationwide divisions within the ranks of organized labor presented a strong impediment to successful collective bargaining because the labor organizations and

labor leaders competed with one another to get a little better wage adjustment than the other fellow could . . .

"With these untested and unfamiliar tools and under the great handicap of union rivalry, American management and labor had to meet, in 1946, a combination of circumstances that might well have wrecked even the hardiest system of collective bargaining."

If there is any single reason why we have not had a lot of serious strikes this year, it is this: Because we had so many last year.

That is not an attempt to be facetious. Strikes have a way of purging a situation, a relationship. After men have tested each other, after each has seen how much the other can stand, and after each has suffered, tensions are relieved, the air is cleared for a while. Often, for a long while.

From a strictly economic standpoint, strikes cost the parties involved so much that there is a natural tendency to a period of industrial peace. Strikes teach both sides the value of compromise. Long strikes, therefore, if they are not of the violent variety, often lead to a long period of industrial peace.

Strikes, then, are an important element in the maturing of collective bargaining. Where a union is young and untried, or whenever it insists on flexing its musles to prove superiority to somebody, management may find it is best to let the union have its strike. Nothing brings economic reality into focus quite as well as a strike which has hurt the participants.

The telephone strike this year was really an organization strike, a groping for maturity. The disunity among workers in reaching a settlement was a sure sign of this. The money issue was secondary. The leadership was trying to weld a group of unions into one solid national organization. Hence the insistence on national bargaining. Whether the telephone management was wise in resisting this remains to be seen. It will prove to be a sad mistake if it opens the way for seizure of the union by radicals.

Almost none of the rules of the game seem to apply to the United Mine Workers. Despite its long history, the miners' union has not come of age, simply because the miners have experienced no real self-expression. Their strikes have been an expression of John L. Lewis' self. They have trusted his every move like a child trusts his parent. They have not done their own thinking. No independent leadership has been permitted to develop. The day may arrive suddenly when the United Mine Workers, without Lewis, will have to think and act for itself. The adjustment to real responsibility may be painful to all concerned.

It will be surprising if the summer passes without a soft coal strike. Lewis' demands are severe and will be resisted. He is a phenomenon. He is not typical of labor leadership today or in the future. He cannot be dissected with the same tools used on other men. He is too tough.

One of the contributing factors to the 1946 industrial upheaval—internal labor union rivalry—is still with us. This rivalry is on three different planes. One is John L. Lewis versus everybody else with any ambition. Another is the AFL versus the CIO. Finally, and very important, is the Communist versus the Anti-Communist leadership in the CIO.

It is interesting to note that all the threads of these rivalries lead back to Lewis' lair. It was Lewis who set up the CIO. He put the Communists in places of power. He abandoned Phil Murray to the Communists. Now Lewis is back in the AFL, although never giving up his lone-handed fight for the greater glory of Lewis.

Take rivalry No. 1—Lewis against the world. If Lewis' ambition merely was to lead the miners, he would be resting now. He holds the miners in his hand as he would hold a club. He uses them to beat the operators and the public upon the head at his own will. Obviously he aims to lead a united labor movement. Unless new labor statutes keep him too busy, he will have a good chance of achieving his ambition. There is no evidence that his health is precarious, rumor to the contrary notwithstanding.

Lewis has already galvanized the AFL into action since he returned. He is the inspiration behind the unification talks with the CIO. If the CIO doesn't come along peacefully, it will have to fight for its life and fight hard. The AFL will show a membership next fall of more than 8,500,000, if the Machinists return, as expected. The CIO will still be claiming "about 6,000,000," no doubt, but the AFL will taunt them for not showing an official report, which the CIO has never done. There is reason to believe that CIO membership is little more than 3,500,000.

Organization work by Lewis' District 50 and by the other AFL unions will keep the CIO busy maintaining its defenses.

CIO President Murray, a Lewis Lieutenant for more than twenty years, suffers psychologically from the Lewis image. He is con-

Photo by Wide World

The telephone strike showed immaturity, with the various telephone unions disunited in arriving at the settlement — and the public the sufferer.

stantly trying to prove that he can do at least as well as "big John," as he calls Lewis. Lewis still considers himself the master of his graduate pupils. Thus, both Lewis and Murray have a neurotic need to demonstrate superiority. This kind of immaturity is one obstacle to stability in labor-management relations.

Rivalry No. 2 is the AFL versus the CIO. The CIO unions led the way in 1946 in establishing wage patterns. The AFL angrily retorted that it was getting wage increases for its members without strikes and without price increases (forgetting, apparently, that this was not true of the reaffiliated coal miners). The AFL directed its fire at Communists in the CIO for stirring up the fuss and delaying reconversion.

The AFL-CIO rivalry has made life more burdensome for members of Congress who are friendly to organized labor. The two organizations have not been able to find a common basis for their lobbying activities and legislators are caught in the conflict. They are weary of it, so weary, in fact, that they are not extending their best efforts to block punitive labor legislation.

Photo by Press Assoc.

When police clubs swing and fists fly everyone loses. Sound agreements, without work stoppages, must be the goal for both labor and management.

Finally, there is the fight within the CIO between those who get their inspiration from Moscow and the Communist haters. It is a bitter rivalry. The AFL versus the CIO may fairly be called a disagreement. But the feud within the CIO is much more than that. It is full of hatred, distrust, and suspicion. Murray conceives it to be his job to keep the organization together at all costs, to keep political enemies working together on trade union (non political) jobs.

The anti-Communists believe that Murray's fundamental error is one of naivete. They believe he places too much trust in the Communists; that he is useful to them as long as their strategy calls for a united front; that when they no longer need him, they won't trouble themselves to use orthodox methods to get rid of him.

There is no question that fellow travelers dominate the CIO's United Electrical Workers. In the United Auto Workers the struggle for power is intense. Walter Reuther, who hates and is hated by Communists, presently leads the UAW, but he is fighting for his political life. It was a defeat for him, therefore, when the Commie-dominated UE was able to get a General Motors contract first, and at terms which up to then had not been offered to Reuther.

The red-haired Reuther has frazzled the nerves of General Motors officials for several years. It is no wonder that GM emotionally would wish for Reuther's liquidation. But one wonders whether it isn't immature to think that management would be better off with Communist leadership, merely because that leadership is relatively docile now. Management will have the devil's own time with Communists, once their opposition is crushed and the party line calls for a holy war against capitalism.

One might fairly ask, too, "Has Management Come of Age?" There are glaring instances of management's immaturity, but by and large management has adjusted to the new realities. It is more conscious of its responsibilities than ever before.

But it can be seen from the foregoing that the mere acceptance of collective bargaining by management will not in itself assure industrial peace. Not while labor is divided between AFL and CIO, between Communists and anti-communists, between those who follow and those who fear John L. Lewis; and not while labor leaders are preoccupied with protecting their own personal security and vested interest.

We can have industrial peace even with these defects in the institution of labor, but it will be more difficult.

If we could be sure that the coal miners would not strike for more thn two or three weeks this summer, if we knew what to expect in the way of a labor law, the future could be forecast with equanimity.

And by the way, speaking of maturity, the action of the House of Representatives on labor legislation was definitely in the pattern of immaturity.

There is no question of the need of amendments to the nation's labor laws. (*Please turn to page* 180)

Labor Contract Expirations in May

Company	Location	Expiration Date
American Brass Co. (The)	Ansonia, Conn.	5-17-47
American Brass Co. (The)	Buffalo, N. Y.	5-22-47
American Brass Co. (The)	Waterbury, Conn.	5-17-47
Armstrong Cork Co.	Pittsburgh, Pa.	5-1-47
Briggs Mfg. Co.	Interstate	5-15-47
Celanese Corp. of America	Rome, Ga.	5-19-47
Consolidated Vultee	Downey, Calif.	5-8-47
Consolidated Vultee Aircraft Corp. (Production and Maintenance)	San Diego, Calif	5-12-47
Consolidated Vultee Aircraft Corp. (Salaried Employees)	San Diego, Calif	5-12-47
Consolidated Vultee Aircraft Corp.	Fort Worth, Texas	5-22-47
Curtiss-Wright	Caldwell, N. J.	5-15-47
Curtiss-Wright	Clifton, N. J.	5-15-47
Dodge Mfg. Co.	Mishawaka, Ind.	5-31-47
Endicott-Johnson	Endicott, N. Y.	5-1-47
Ford Motor Co.	Interstate	5-30-47
B. F. Goodrich Co.	Akron, Ohio	5-21-47
Illinois Bell Telephone Co.	Chicago, Ill.	5-31-47
International Harvester	Fort Wayne, Ind.	5-26-47
International Paper Co., So. Kraft Div.	Interstate	5-31-47
International Paper Co.	New York State and Maine	5-31-47
Liggett & Myers Tobacco Co.	St. Louis, Mo.	5-31-47
Maytag Co.	Newton, Iowa	5-31-47
National Fireworks, Inc.	West Hanover, Mass.	5-16-47
National Gypsum Co.	National City, Mich.	5-31-47
Parker Appliance Co.	Cleveland, Ohio	5-16-47
San Antonio Garment Mfgrs. Assn.	San Antonio, Texas	5-31-47
Sherwin Williams	Chicago, Ill.	5-31-47
Sinclair Refining Co.	Interstate	5-31-47
U. S. Time Corp.	Middlebury, Conn.	5-8-47
U. S. Time Corp.	Waterbury, Conn.	5-8-47
Waltham Watch Co.	Waltham, Mass.	5-1-47
Western Sugar Refinery	San Francisco, Calif.	5-31-47

This tabulation is believed to be accurate but cannot be fully verified so cannot be guaranteed.

Happening In Washington

By E. K. T.

MERGER of the military services is not nearly as much a certainty today as it was when congress first took up the idea. The house military affairs committee, which is army-dominated and therefore was expected to lead off for the merger has given preference to legislation to standardize army and navy promotions and retirements, and for revision of court martial procedure. Universal military training is in the background but would precede merger in committee discussions. The senate armed services committee probably will report out a bill favoring unity but present disposition is to permit it to die on the calendar.

WASHINGTON SEES:

Even his best friends are telling him, Senator Robert A. Taft of Ohio, that is, that his chances of winning the republican nomination for President are dimmer today than they have been in a year.

Strength definitely is flowing to the Thomas E. Dewey political camp. And there are several reasons for this. In the first place, Senator Taft's assumption of leadership in congress has worked to his disadvantage. Justified or otherwise, there is criticism that the output of Capitol Hill is not up to par, either in quantity or quality.

Other Presidential hopefuls—at least possibilities—are making it difficult for the Ohioan. For example, Senator Arthur H. Vandenburg's espousal of David Lilienthal after Taft had announced he would fight confirmation of Mr. Truman's designee for chairman of the Atomic Energy Commission. Taft lost that one.

Then, too, there is active and able Senator Irving Ives of New York, a "Dewey man." Ives has fought the Taft version of labor legislation, bringing to the battle long experience in the subject in his home state.

Selection of Philadelphia rather than Chicago for the next republican national convention was a loss to Taft, a victory for Dewey, and choice of Rep. Leonard Hall of New York, for campaign committee chairman, must be similarly catalogued.

PROPOSED extension of the rent control bill is a definite victory for President Truman and the congressional majority is making no effort to present it in any other light. Hardest fight for upward revision was made in the senate, led by Senator A. W. Hawkes of New Jersey; yet it was the senate that broke the ice on the extension bill. Eventual legislation will make provision for elasticity in administration but, unless all present signs miscarry, there will be no flat increase. Landlords are bombarding members of congress while renters (according to congressional mail—which is studiously analyzed by all members) are making little fight. But, there are more renters than landlords!

ANTIMONOPOLY bills which have been presented to both houses are "dying on the vine." Most miscellaneous and administrative bills go to the judiciary committees whose policy is to sit on them. Neither Rep. Earl Michener nor Senator Alexander Wiley, chairman respectively of the house and senate judiciary committees, plans any action in that field. Michener classes the antitrust amendments among 1,600 legislative policies which are "possibly desirable, not essential." Senator Wiley has 500 bills in the hands of his subcommittees, says he won't attempt to dictate the order in which they will be reported for action.

DESPITE polls which show a trend toward Mr. Truman in particular and the democratic party generally, the republican national organization is counting its political chicks before they are hatched. A patronage fight is on. Pending are 703 postmaster nominations awaiting confirmation and several places on the judiciary which await the senatorial "advice and consent" which normally is given as a formality but which, this year, the GOP is withholding against the prospect of filling the jobs from its own faithful in 1948. There's nothing new in the stratagem. When Mr. Hoover lost control of congress, the democrats held up 1,662 postmasterships. Their guess, politically, was right. The republicans are hopeful of a repeat performance—in their favor.

As We Go To Press

Accepted on all sides is the fact that the labor bill passed by the House will be watered down by the Senate. President Truman's position still remains uncertain. It depends on the extent to which the Senate weakens the omnibus measure, imposes its will on the other branch of Congress.

Republican slogan which is worrying the Presidential advisers is: "Industrial peace now is the responsibility of the White House." While the drastic legislation passed the House of Representatives by a three-to-one vote (indicating, numerically, that a veto could be overriden) there are considerations of party fealty -- weak as it was proven to be -- that the new law could not survive a White House thumbs down.

Presidential emphasis was placed upon laws which would remove the dangers of jurisdictional strikes and those arising from secondary boycotts. The argument isn't cogent. Last year, only two per cent of the work stoppages stemmed from those causes.

Representing a renewal of functions suspended during the war, the Federal Trade Commission has launched a program of collecting, summarizing, and analyzing the financial operating statements of United States manufacturing corporations. The information is not strictly for "file purposes."

Forms have been sent to 8,500 companies. Each is asked to file in details, profit and loss statements, balance sheets for the most recent three months period. Inspiration came from the corporations; it wasn't politically generated. Covered will be all known manufacturing companies with assets of more than 5 million dollars, with small percentages of those in the lower and in the higher categories.

Aid to marketing specialists will be a scientifically selected cross-section of the country's population which will be made available in May. Indicated will be regional and national population, employment, housing and consumer income.

Waste, fraud, inefficiency and bad administration will be chalked up against the federal housing administrators in a general indictment which will top a long lobbying campaign. Added charge will be made that those functionaries are attempting to perpetuate themselves in office by leasing federal facilities for which there is a ready sales market.

Cited will be the continuation of a huge staff of propagandists to build national support for the pending Wagner-Ellender-Taft federal housing bill. It appears to have been an effective staff. The bill seems to be gaining favor although its form will be modified to give the private building industries a larger part in its execution.

Continuance of food export markets is causing increasing concern among segments of that industry. Lack of loans and dollars is the reason. Rumor factories in Washington have been grinding out stories of a broad, comprehensive program of food relief, approaching the wartime lend-lease levels.

Here is the score: the army request for 300 million dollars in a deficiency appropriation bill for civilian feeding in occupied zones is "must" legislation.

However, part of this may be used to repay the British who have been advancing dollars for food in the American zone since Feb. 1. Little of the Greek-Turk loan will go into food.

Added to this is the fact that the bill calling for 350 million dollars to take up the slack following the end of UNRRA in Italy, Greece, and Poland (still in the drafting stage) is certain to be severely cut in amount and in scope. The money eventually appropriated will go largely for cereals and food specialties.

What many of the Washington dreamers do not realize is that the current Congress is dedicated to balancing the budget. They may do so. Any open-pocket for loans to any and every country will be critically examined. The World Bank is not the solution to the problem. It will make loans only for rehabilitation, machinery, locomotives, but not for food. The Export-Import Bank likewise has its limitations.

In the field of national financing, the Reconstruction Finance Corporation faces the certainty of being taken apart and being put together again with definitely limited authority. Congress will continue its existence, despite some vigorous Capitol Hill argument to the contrary.

Rumblings of the past several months of official statements on high prices culminated in President Truman's assertions. His comment to the press was not offhand. It was studied, and the results of several Cabinet meetings. Not intended as an invitation to unions to strike, it would have been so interpreted were it not for the deterring effect of the omnibus labor bill, still pending.

General line retailers who have acted quickly to cut prices just aren't in a position to accomplish much, except psychologically. The Bureau of Labor Statistics says 70 per cent of the rise in living costs can be traced to foods. Too early decontrol is the answer which Congress members now are reluctantly accepting.

President Truman is having his problems. While he implies another OPA is just around the corner, he actually doesn't want it, would reinstitute it only as a last resort. And even then he'd do so over the firm opposition of his entire Cabinet family. The Administration is finding it difficult to maintain a stable economy at home, with a foreign policy based on dollar loans which return to the American market for needed supplies. Net result is an inflationary force, which, Washington economists point out, causes the taxpayer here to lose from both pockets at the same time.

Handlers of lumber are seeking to drive back to the producers the responsibility for costs which is placing housing beyond the reach of many prospective purchasers. And they have support from the Department of Commerce which simplifies it this way: last month your dollar purchased the quantity of lumber you could have bought in 1939 for 35 cents. This means a house that required $1,000 for lumber in 1939 would have shown a $2,828 cost last month.

United States producers of prefabricated buildings were disturbed to learn that pre-fabs from Finland had been placed on the tariff-free list to this country. But their fears were unfounded. Finland has a deal with Poland for exchange of houses for coal which will tie up much of the production; Britain is bidding in the market; Russia is demanding -- not asking -- prefabricated houses as reparations. It will be many months before any orders are delivered to this country.

Congress is continuing to pile up a mass of unfinished business. Hundreds of committee hearings have produced favorable reports on many more bills than can possibly reach the floor for debate before the tentative July adjournment date.

Action has been completed so far on about one third of the major non-appropriation bills on the majority priority list and a start has been made on numerous others. Some of those remaining on the calendar are highly controversial, would require weeks of debate to resolve. They'll be passed over or be strangled by talk.

Advantages and Hazards in Today's Corporate Inventories

Photo by Ewing Galloway

Bulging warehouses should help to stimulate price reductions in order to cut excess inventories and avoid repetition of costly experiences after World War I

By J. C. CLIFFORD

ANNOUNCEMENT by the Department of Commerce that manufacturers' inventories increased some $300 million in February for a total above $21 billion has again stirred up debate over the trend. Mindful of sad experiences after the first World War, when top heavy inventories proved ruinous to many concerns in the 1921 depression, pessimists are frowning upon the large inventory build-up since V-J Day. Experienced economists, both in Washington and in the field of management, however, only worry moderately about the current status of inventories, and for a good many reasons. Viewed without bias, these conflicting opinions in each instance have a measure of soundness. Therefore, it seems timely to discuss both sides of the subject.

Complexity is characteristic of the problem in that inventories at the manufacturing level are one thing and those carried by wholesalers and retailers are another. Stocks of goods, in process and finished, held by all segments of the economy in January had risen to a record high of $35.8 billion, equal to about 34% above the total as of V-J Day. Coming on the heels of a year when consumers had spent more money than ever before, this large amount of goods in factories and on distributors' shelves might arouse apprehension, were not comparisons with late 1945 illogical. During all of last year manufacturers were struggling to fill empty pipelines with anything and everything they could ship to the distributors, and for a time consumers grabbed almost any item regardless of price or quality. Under the flux created by strikes and shortages of materials, inventories at all levels were necessarily in a decided state of imbalance, although as to values, not far out of line with sales.

As matters stand more recently, increasing selectivity and resistance against high prices on the part of consumers, along with considerable leveling out of manufacturing programs, has aroused a wholesome degree of caution all along the line. As a result, the economy has entered a new phase where experienced retailers are refraining from placing far forward orders and manufacturers are scanning their backlogs closely to avoid the chance of sudden and sizable cancellations. One the other hand, shipments and retail deliveries must be prompt in order to sustain volume, hence requiring a sensible amount of goods and materials on hand. But some branches of industry, such as makers of fruit juices and frozen foods, have stepped up production so fast that their warehouses are clogged with surplus supplies, in some directions. Manufacturers of table radios, too, appear to have entered the period when competition has become highly intensive, thus signalling that supply is catching up with demand in this sector. As for non-durables, textiles involving women's wear have become rather plentiful, though at still high prices, while shortages continue for lines of men's clothing.

In the fields of metal products, lumber, building materials and chemicals, the process of filling the

"pipelines" has been retarded thus far, although inventories of manufacturers are rather high in relation to shipments as yet. Some break in lumber prices is starting. In part this high ratio may be accounted for by the very spotty availability of essential parts and materials in many cases. Shortages have precluded final assemblies, thus piling up goods in process. Anxious buyers for the factories, too, are under such pressure to supply essentials that they tend to overload somewhat when an opportunity to purchase presents itself. In other words, inventories are still not quite properly balanced in numerous cases. But even so, where there is little chance of further over production during the rest of 1947, large inventories at this stage can be of no concern. Later on, though, the story may be different.

From the above it will be recognized that inventory problems have reached a point where the factor of safety has become divergent at different levels and with various classes of industry. In general, the manufacturers are comfortably situated in this respect, and the same thing is true of the larger retailers. If predictions that the public will have disposable income of over $140 billion in 1947 and will spend upwards of $100 billion come true, $35 billion in current inventories, finished and incompleted good, assuredly is nothing to worry about in itself. At the moment, the most vulnerable spot may be with the wholesalers, many of whom probably are experiencing an abnormal strain upon their capital resources due to high prices, and have to rely rather heavily upon bank loans to supply the deficiency. In the event of a sudden price decline, some of the wholesalers might have to unload faster than the retailers, thus tending to accelerate the downtrend.

Changes in the general level of prices on a downward scale, of course, constitute the main threat of unstability and failure, with inventories at swollen dollar values and physical proportions. Prophecies late last year that prices would tend to recede rapidly in the early spring of 1947 have not been borne out as a rule. Markdown sales ever since the first of the year have been widespread all over the country, but in the main have been confined to liquidation of slowly moving merchandise or that of inferior quality in the hands of retailers. As leading proponents for lower prices, the department stores are likely to continue throughout the year in advertising certain items at lower prices, for the process tends to establish better balance in their stocks and to stimulate sales. With an average markup of 35% to lean upon, they can well afford to cut prices moderately here and there, although the effect upon net earnings may be slightly adverse.

Opinions as to a general decline in prices during the near term vary, especially since a secondary wave of wage boosts has now set in. Quite rationally this trend may deter many manufacturers from lowering their prices, at least until such time as their warehouse stocks become unburdenable. For makers of durables facing immediate wage rises to lower prices with competitive pressure is going to be a tough nut to crack, although leading managements like Ford and International Harvester have had the courage to try it out. On the other hand, hardly a day passes now that a manufacturer in some category does not yield to President Truman's appeal to set a price downtrend in motion, and among the latest we might cite Colgate-Palmolive-Peet, out with a 10% cut in prices for their soaps. This case is particularly interesting in that the current shortage of fats and oils has contracted the company's inventory position to a level far below normal requirements in relation to sales. All in all, it begins to look as if public pressure for lower prices may result in success during the balance of the year, but only with gradual effect and not on a drastic basis. While a good many manufacturers will implement these policies, it seems more likely that distributors will play a major part in the picture.

When and if this occurs, the increasing trend to value inventories on a "life" basis will help to bulwark managements against substantial losses. By using this "last-in-first-out" method of accounting, concerns are restrained from piling up inventory profits during periods when prices are rising. During an interval when prices are declining, however, the problem of stabilizing profit margins is eased because replacements of goods at the newly lowered price automatically reduces all inventory values in a similar category. Practically all of the major merchandise distributors use this "life" method of bookkeeping, as well as the great majority of manufacturers, and it has been *(Please turn to page 176)*

Indexes of Value of Manufacturers' Inventories

(Average month 1939 = 100)

	December 31								Feb. 28,
	1939	1940	1941	1942	1943	1944	1945	1946	1947
All Industries	107	120	158	177	179	168	164	204	211
Durable goods industries	109	130	176	210	213	192	171	220	230
Iron and steel and products	110	127	129	139	140	121	120	138	141
Nonferrous metals and products	97	n.a.	143	n.a.	153	148	136	166	179
Machinery, including electrical	108	132	196	271	252	243	218	290	305
Automobiles and equipment	124	145	193	233	245	233	187	256	280
Transportation equipment, except autos	129	278	663	1,021	1,086	837	594	819	854
Nondurable goods industries	106	111	144	149	149	148	158	190	195
Chemicals and allied products	104	117	144	159	160	157	165	195	203
Food and kindred products	111	112	162	156	182	174	177	202	204
Paper and allied products	108	120	135	144	125	134	155	185	192
Petroleum refining	97	102	113	107	106	110	112	133	131
Rubber products	108	125	144	175	179	170	169	216	n.a.
Textile-mill products	107	116	147	147	128	120	130	174	174

n.a.—Not Available.
Source: Department of Commerce.

Opening up a new gold vein in Ontario's Sturgeon River area. Gold mining is one of Canada's leading industries.

Ewing Galloway

Photo by Wide World

Harvesting in Saskatchewan. Wheat is Canada's largest dollar crop.

CANADA FEELS IMPACT *of World Insecurity*

By V. L. HOROTH

It seems paradoxical that there should be talk of devaluating the currency of a country that has never been more prosperous in peacetime. That country is Canada. Speculating about the possible devaluation of the Canadian dollar is more persistent than ever. Yet from all indications the Dominion is in the midst of a boom comparable only to the boom in this country. The purchasing power of farmers is near the wartime peak. Industrial capacity has been diversified and about doubled since 1939. Foreign trade is about two and a half times larger than before the war. Reconversion has been practically accomplished, and wartime workers successfully absorbed into peacetime tasks, so that there is practically no unemployment. Prices are considerably below the price level in the United States, which gives the Dominion a cushion in case of business recession here. The competitive position of Canadian products in world trade is excellent. In a nutshell, the situation could not be better. Why, then, the talk about devaluating the Canadian dollar that was raised to parity with the American dollar less than one year ago?

The speculation about the devaluation is largely based on two developments, popularly interpreted as dependent upon each other. A decline in internal Dominion and provincial securities and the rise in the discount in the free market to over 10½ per cent is one of these developments. The other development concerns a strain on Canada's balance of payments with the United States, reflected in the decline of Canadian reserve of gold and U. S. dollars by $263 million during 1946. Devaluation is popularly looked to as the simplest and easiest way out, although, as will be shown, it does not solve the dilemma of Canada's international position.

There is no connection between the discount and the strain in Canada's international payments. The discount applies only to the Canadian dollar quoted in the unofficial markets in the United States. These free market dollars are held by the non-residents who obtain them from certain transactions, and can be sold only to other non-residents for certain specified purposes. This is why the free market Canadian dollars are also called "unconvertible" or "limited-purpose" dollars. Transactions between Canadian residents and outsiders are executed at par in official Canadian dollars and are, of course, supervised by the Canadian Foreign Exchange Control Board. The amount of Canadian dollars changing hands on the unofficial market is small. The volume has not run to more than a small fraction of Canada's international transactions.

Who Buys and Sells Through the Unofficial Market?

The market for unconvertible Canadian dollars arises because capital transfers to non-residents are permitted relatively freely. When an American with a pre-war bank account in Canada, or with Canadian real estate or securities, wishes to liquidate his holdings, he is now permitted to sell them to the Canadians and to get Canadian dollars. But the Canadian Control Board will not provide U. S. dollars for such transactions. Hence the American can convert his Canadian funds only by selling them to another American in the New York market. The discount, as a recently published brochure of the Control Board points out, really represents an inducement offered by one non-resident to another to take over a capital investment in Canada which cannot be converted into U. S. dollars at the official rate.

The American acquiring free market Canadian dollars can use them only for making capital investments in Canada; to purchase Canadian securities,

Canadian Balance of Payments in 1946

(Current accounts only)

All figures in millions of Canadian dollars

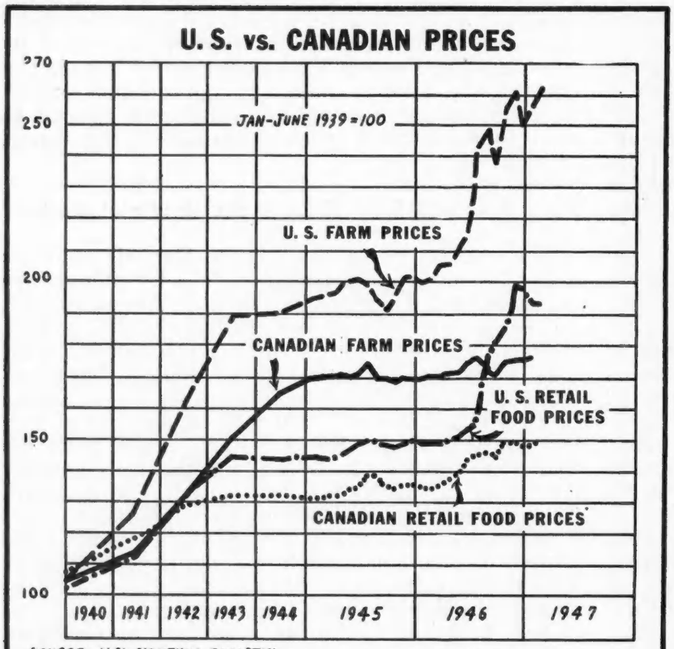
	With the United States			With Other Countries			With All Countries		
	Receipts	Payments	Balance	Receipts	Payments	Balance	Receipts	Payments	Balance
Merchandise trade	948	1,378	— 430	1,450	444	+1,006	2,398	1,822	+ 576
Tourist and travel	214	131	+ 83	5	5	....	219	135	+ 84
Interest and dividends	46	250	— 204	28	62	— 34	74	312	— 238
Freight and transport	112	178	— 66	175	32	+ 143	287	210	+ 77
Shipment of non-monetary gold	96	....	+ 96	....	....	....	96	....	+ 96
War services	....	23	— 23	18	99	— 81	18	122	— 104
Immigrant and inheritance funds	19	31	— 12	45	2	+ 43	64	33	+ 31
All others	140	187	— 47	45	62	— 17	185	249	— 64
	1,575	2,178	— 603	1,766	706	+1,060	3,341	1,883	+ 458

Source: Annual Report of the Canadian Foreign Exchange Control Board.

to make loans, to buy real estate, or to invest in Canadian enterprises. The only exception is the case of American tourists. They may bring with them these cheaper Canadian dollars if they wish to, though it seems that the majority of them buys Canadian funds with dollars in Canada at par.

The Canadian dollars obtained in the unofficial market at a discount cannot, therefore, be used by Americans to pay for exports from Canada. This is because the regulations require that exports to the United States dollar area shall be made only for payment in foreign exchange. Similarly, a Canadian receiving a dividend check must surrender it to the Control Board either directly or through a bank in Canada. The Control Board in turn provides from its reserves, at par, the necessary foreign exchange that the residents of Canada require for payment for imports or for payment of interest and dividends in this country. Hence a Canadian dollar check representing a payment either for imports or for dividends can be converted into U. S. dollars at par.

There would be no discount quoted for the Canadian dollar if the Canadian Government were prepared to buy at official rate any Canadian dollars that might be offered for sale. But this would involve a strain on Canadian resources of U. S. dollars and gold, even greater than the strain to which the current transactions between Canada and the United States are subjected to already. The discount itself depends upon the relationship between the supply and the demand for unconvertible dollars. Since last July, when the Canadian dollar was up-valued, the supply has exceeded the demand, probably because many Americans have been cashing in on their profits. Others are possibly speculating on the devaluation of the Canadian dollar and are withdrawing their funds to reinvest them later. Still others may be concerned about the decline of Canada's U. S. dollar and gold reserves and about a possibility of a stricter exchange control in the future.



Strain in Balance of Payments with U. S.

Taking the world as a whole, Canada's favorable balance on the current account in 1946 was about $460 million. Yet despite this surplus she lost some $263 million in U. S. dollars and gold. The basic cause for this anomaly lies in the fact that Canada has to pay hard currencies (U. S. dollars) for most of her purchases abroad. On the other hand, she sells the bulk of her exports for soft currencies (sterling and Continental currencies) or on credit.

Why is Canada importing so much from the United States? The high level of Canadian expenditures here reflects the prosperous condition of the Dominion — the greatly expanded purchasing power of her people. Also, many purchases here had to be deferred during the war and still others would have been made in Great Britain or on the Continent had the goods been available there. At present, Canada is buying more

Photo by Wide World

Canada's vast western plains are the source of important beef production which contributes greatly to national income

from this country than Great Britain and France, our next two largest markets, together. In return she is sending us more goods than the whole Continent of Europe combined.

At the present time, Canada's deficit in her payments with the United States is running at the rate of about $700 million a year. The imports are at the annual rate of about $1,600 million; in addition Canada has to pay us about $200 million in interest and dividend payments and about $100 million for transportation and other charges. Her receipts of American dollars are at the rate of about $1,200 million a year; $1,000 million from exports and $200 million from newly mined gold and from travel expenditures. The latter amount is considerably smaller than it used to be before the war. The up-valuation of the Canadian dollar and the shortage of labor have been hampering gold mining operations. At the same time, the expenditures of the Canadian travelling in the United States have been so large that they have materially offset the record expenditures of American tourists in Canada.

Importance of Multilateral Trade

Some people believe that, as a result of the heavy deficit in her international transactions with us, Canada will be short of U. S. dollars within a year or so, and that by that time she will have to either devalue or reduce drastically her purchases in this country and redirect her purchases to Great Britain and the Continent of Europe.

The point is, however, that the devaluation of the Canadian dollar would not help bridge the gap of some $500 to $700 million in the Dominion's international transactions with this country. It would possibly diminish the inflow of American goods into Canada, and stimulate somewhat Canadian exports to us—but Canadian exports need no stimulation. The redirection of Canadian purchases would not help either. It would require expensive, unnecessary hauling of raw materials, and as for tools and machinery, Europe will simply not have much to spare for some time to come.

The best and in fact the only solution of Canada's problem of international transaction lies in the restoration of multilateral trade and converitibility of currencies. There is nothing else for Canada to do but wait until her customers get on their feet again. This Canada apparently intends to do. Meanwhile she has been helping her customers. The credits authorized total about $1.844 million, including the $1.250 million credit to Great Britain. Up to last February, about $850 million of these credits were used up.

Canada's international economic position may improve somewhat when the currently spent sterling is made freely convertible into U. S. dollars after July 15. The resumption of operations by the World Bank and the Monetary Fund may also hasten the day when currency convertibility is extended to a wider area in Western Europe.

Canadian and U. S. Price Levels

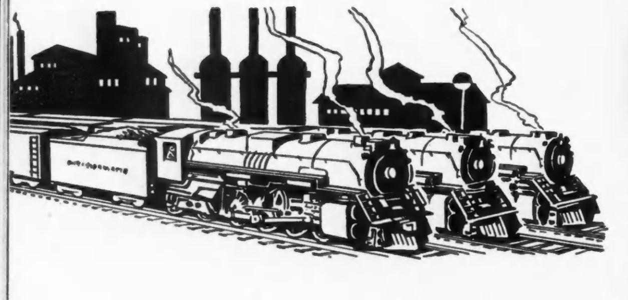
It is generally conceded that rising prices in the United States have also materially contributed to the increase in the value of Canadian imports from this country, and hence to the gap in the Dominion's international payments with us. These higher cost imports will, of course, force the Canadian prices closer to the price level in this country in due time.

The Canadian wholesale price level is at present about 20 per cent below ours. The retail food prices, as will be seen from the accompanying chart, are about 25 per cent lower than here. The most spectacular difference, however, exists between the Canadian and the United States prices of farm products. While ours are over 160 per cent above the Jan.-June 1939 level, the Canadian farm prices are only 76 per cent higher. A month or two ago, the wholesale price of butter in Montreal was still 42 cents a pound; eggs sold for 46 cents a dozen, and wheat in Toronto was quoted at $1.25 a bushel.

One reason for lower prices in Canada has been a more astute management of price controls than in the United States. The close connection between wages and price stability has been recognized in Canada right along. In this country, we ignored it after V-J day. The Canadian Government did not deliberately sponsor a round of wage increases as Washington did. Up to a few months ago, any wage increase that would have led to a price rise was denied by Canadian War Labor Boards. Second, because price control has been more successful in Canada, particularly in keeping down the prices of retail foodstuffs, it has retained a greater popularity than in this country and has had better cooperation from the public as well.

Instead of removing price ceilings at once as we did last July, the Canadians embarked on a gradual decontrol. Beginning last Summer. By the end of the year, most of the price ceilings had been removed, except in the case of foods, clothing, fuels, and rents. Since the year-end, additional commodities have been added to the free list. The termination of the wage and salary control became effective as of December 1, 1946. The control over coal prices ceased this month, and so did the payment of coal subsidies. Also authorized this (*Please turn to page* 176)

New Study of the RAILS



By ROGER CARLESON

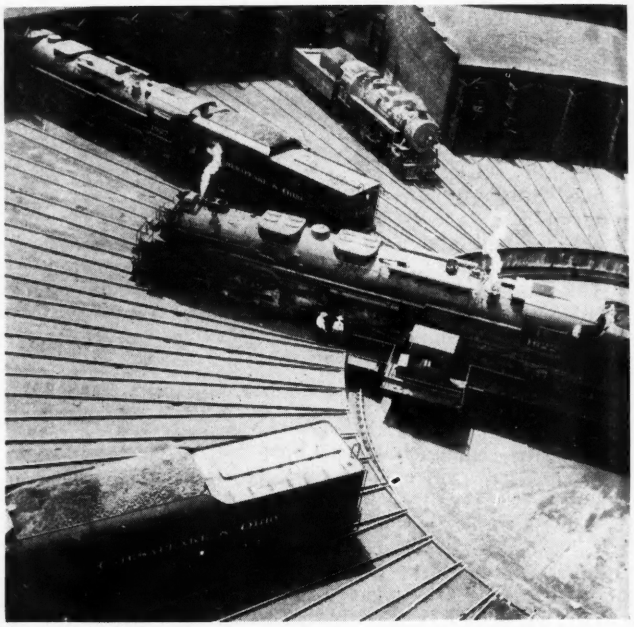


Photo by Ewing Galloway

Chesapeake & Ohio roundhouse and turntable, Clifton Forge, Va.

Hopes that increased freight rates, effective January 1, would tend to broadly improve railroad net earnings in the current year, have not been realized thus far in 1947. Some carriers, to be sure, have been able to register gains, but most of the group, including several of the more important systems, have been slow to convalesce from dismal troubles of last year. As in recent weeks the Magazine of Wall Street Index of Rail Stocks has hovered around 20, a low point since 1944, it seems evident that investor interest in railroad equities has simmered down markedly. This raises the question as to whether potentials for this giant industry warrant further liquidation of rail shares or if through selectivity some opportunities for appreciation and sound income may be disclosed. To present the pros and cons of the situation provides an interesting basis for discussion.

The basic difficulty of the railroads at present seems to involve politics quite as much as economics. For years past their interstate operations and overwhelming importance in the economy have made them a number one subject for Federal control. Careful as Congress was in the early days to insist that the Interstate Commerce Commission establish rates adequate to assure a reasonable return upon invested capital, in late years the ICC seems to have broadened its authority until delays and red tape have produced unfortunate results. Additionally, Administration policies admittedly have favored holding transportation costs at as low a level as possible and apparently at the expense of satisfactory returns upon capital. Weighing heavily in the scales, also, is the undeniable fact that during war years the roads were exceedingly well rewarded for the record performance in helping to gain the victory. Within the space of four years the after Pearl Harbor railroads made capital expenditures of more than $2 billion, retired over $1 billion in debts, cut fixed charges by some 25% through retirements and refinancing at lower rates, concurrently building up working capital of the Class 1 roads to $2.25 billion against a bare quarter of this figure in 1939. All this despite heavy Excess Profits taxes which held net income down to an average of about $700 million annually, at that more than three times that of immediate prewar year.

In scanning these figures after VJ Day, it can be envisaged that the ICC had a sizable poser on its hands in appraising potentials for rate making in the first year of peace, especially with EPT out of the picture. In waiting until December, 1946 to grant an average rate boost of 17.6% although higher wage scales had been made retroactive to early in the year, they evidently feared that political repercussions would result if the roads continued to prosper as they had during hostilities. As matters turned out it is equally clear that they were over cautions, as shown by Pennsylvania Railroad being obliged to show a deficit for the first time in more than 100 years. Whether conservatism will continue to deter the ICC from liberalizing their rate policies in view of the generally unsatisfactory showing in the first current quarter remains to be seen. The Agency has been rather prompt in granting an approximate 10% rise in passenger rates for the hard pressed New York, New Haven and Hartford, an indication that perhaps they may afford similar relief to the other Eastern Roads now calling for help. Passenger revenues of most of the roads, however, are a minor factor compared with revenues from freight.

Labor Costs Heavy

Right now the main problem centers on the drastic rise in labor costs which absorbed an average of about 50% of gross revenues last year for the Class 1 roads compared with 41.14% in 1945. Furthermore the Crosser law since January 1 has been obliging the roads to pay into the pension and unemployment funds 8¾% of wages up to $300 per month rather than 6½% as of last year. No other branch of industry has to shoulder such a high percentage as this for social purposes. In effect it absorbs about 4½% of gross revenues. Aside from mounting labor costs, too, the rising trend of prices for essential materials is being felt severely by the

carriers. Purchases of materials and supplies in 1946 by the Class 1 roads totalled more than $1.5 billion, with fuel alone accounting for $553 million, lumber $148 million, iron and steel $520 million, plus $347 million for miscellaneous items. The railroads rate as the third largest customer of the steel industry. Since the uptrend in prices became marked mainly during the last half of 1946 and may not recede much for some time, railroad outlays for materials for the current year may be larger rather than smaller.

Downtrend in Passenger Revenues

In theory, at least, the average 17.6% rate advance allowed by the ICC should more than offset the rise in labor costs, including payroll taxes, for the roads as a whole, although in important individual instances managements have validly questioned the benefit as regards their particular situations. Based on last year's traffic volume, freight revenues for 42 leading roads should gain to the extent of $780 million against an estimated rise of about $560 million for labor. Generally speaking this would leave a margin of $220 million for rising expenses of other sorts. The trouble at this point is that this would not apparently be enough to accomplish its purpose and at the same time allow for the discouraging downtrend in passenger revenues which has been indicated for many months past and is likely to contine.

Scanned in this light, for example, the N. Y., N. H. & Hartford would on paper stand to gain 19.2% to absorb higher wages and material costs, whereas the Great Northern would benefit by only 15%, with similar variations all along the line, according to character of traffic and density achieved. In actual experience, however, gross operating revenues of the New Haven during the first two months rose only .9%, leaving net railway operating income with a deficit of $482,291 for the period. In March, however, this road turned the corner, showing net operating income of $437,800 against a deficit of more than $1.8 million for the same month last year. For the entire quarter in 1947, New Haven had cut its relative 1946 deficit by two thirds but was still in the red. As for Great Northern, it showed a 5.1% gain in gross during January and February but net operating income declined 61.8%.

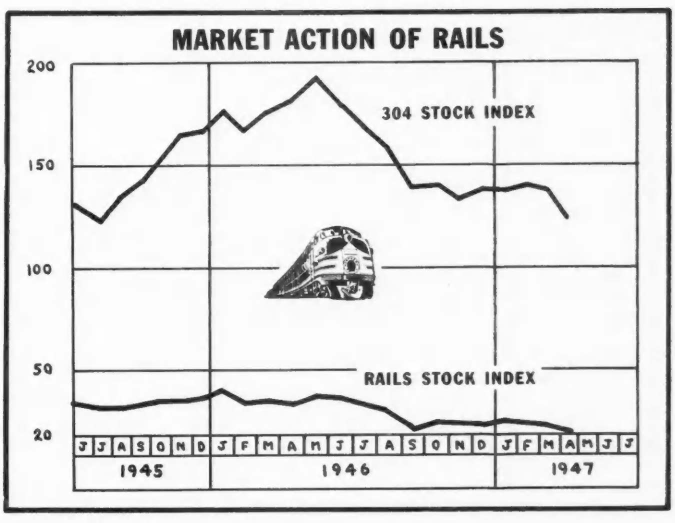
How The Freight Rate Rise Helped

Some idea of how other roads have fared since the freight rise went into effect at the beginning of the year in terms of gross and net operating income may be gained from the following: Pennsylvania, 3 months gross up $13 million but net down about $3.4 million; Virginian Railway, first quarter gross up about $1.3 million with net income up nearly $600,000 too, the improvement partly due to increased haulage of coal. Some of the Western railroads also showed improved net earnings, such as Wabash with a quarterly showing of $2.4 million against $980,000 in the same period last year, while Chicago, Milwaukee, St. Paul & Pacific almost doubled its 3 months net income compared with a year ago. The Santa Fe road, though, while achieving a gain of $8 million in gross from freight revenues during the first two months, lost almost $10 million through a decline in passenger traffic due to the shrinkage in military traffic. Despite a rise in operating ratio from 66.4% early in 1946 to 74.4% in 1947, this A. T. & S. F. system earned the equivalent of $2.42 per share on its common in the January and February period, a fairly good showing although suffering in comparison with the relative $3.91 earned a year ago. All of which indicates widely divergent benefits accruing from the freight rate boost, as concerns many of the larger roads. Gains shown by a number of smaller roads are on a much broader scale.

Returning to the over-all picture, recent steps taken by the Department of Justice to bring suits against many of the railroads for violations of the Anti-Trust laws, while an old story, has not helped to bolster the confidence of holders of rail securities. Here again politics has a good deal to do with the matter; regardless of the outcome, if there is one, nothing very serious could result. A more worrisome potential is that sometime soon labor seems sure to fight for higher wages again. While no strike is likely, expanding wage costs may make it difficult to hold operating ratios on a satisfactory basis, especially as experience has taught the reluctance of the ICC to grant offsetting rate rises. Passenger traffic, too, is almost certain to drop off as the new flood of automobiles pours onto the highways. And it looks as if competition from airplanes would continue to cut inroads into passenger revenues on an ever increasing scale, particularly on long distance hauls.

Many Encouraging Factors

Despite all the above gloomy potentials, though, there are a good many encouraging factors which combine to strengthen the optimism of railways investors. Much of course will hinge upon whether the current high level of industrial activity proves relatively stable or not. Granted in the affirmative, freight traffic in near term months will rise to strain railway capacity to the limit and almost regardless of geographical limitations. And if a recession sets in, it must be born in mind that prophecies of anything more than a moderate decline are rarely heard. Now that fear of work (*Please turn to Page* 178)



Financial Statistics on Leading Railroads

	% Change in Net Rwy. Optg. Income for 2 mos. ended Feb. 28, 1947†	—Net Per Common Share— 1942-45 Average	1945 Fiscal Year	1946 Fiscal Year	Current 12 months Dividend	Recent Price	Price-Earnings Ratio	Divi-dend Yield*	Invest-ment Rating	COMMENTS
Atchison, Topeka & S. Fe	— 31.3%	$19.59	$9.56	$13.51	$6.00	$82	6.1	7.3%	B1	$6 dividend amply covered despite downtrend in passenger revenues. Very strong financial status.
Atlantic Coast Line	+ 1.5	18.73	6.76	6.64	4.00	50	7.5	8.0	B2	First quarter gross and net operating income up compared with a year ago. Dividend appears secure.
Baltimore & Ohio	+131.0	10.07	5.29	.86	Nil	12	14.0	......	C3	Importance to steel industry promises traffic gains. Current earnings trend up but no dividends in sight.
Canadian Pacific	......(b)	2.42	1.98	1.53	1.25	12	7.8	10.4	B2	Increasing deficits in current year clouds outlook. Higher rates needed to assure dividend stability.
Chesapeake & Ohio	+ 2.3	3.50	2.14	3.62	3.50	46	12.7	7.6	A1	Aggressive management and heavy coal traffic extending last year's good income trends. Well secured dividend.
Chicago, Great Western	......(a)	1.59	def.33	def2.10	Nil	6	......	......	C3	Granted good crops the rate boost should keep road in black without reliance upon tax carry back which helped last year.
Chicago, Milw., St. P. & Pac.	— 23.6	Reorg.Co.	3.99	def1.14	Nil	9	......	......	C2	Freight rate increases offsetting higher costs thus far in 1947. No dividend likely, though.
Chicago & Northwestern	......(b)	11.67	10.57	3.19	1.00	19	6.0	5.3	C3	After poor start, current operations favored by strategic advantages and higher rates. $1 dividend probably safe.
Delaware & Hudson	— 12.2	11.08	.99	8.22	4.00	37	4.5	10.8	C+1	Heavy shipments of coal and manufactures supporting operating income fairly well, and $4 dividend likely to be well covered.
Delaware, Lack. & Western	— 15.7	.98	def1.95	.02	Nil	7	350.0	......	C1	Higher expenses not yet met by increased freight rates, but earnings status likely to improve. No dividend in near term.
Erie	......(a)	3.00	1.54	.40	1.00	9½	23.8	10.5	C3	Though last year's dividend was not fully earned, sharp improvement in early 1947 gross and net enhances near term prospects.
Gulf, Mobile & Ohio	+ 32.5	def2.95	def.26	def.17	Nil	9	......	......	C+2	Uptrend in earnings indicated though not sufficient any near term hope for dividends on common.
Illinois Central	— 2.2	13.69	7.79	4.67	4.00	22	4.7	18.1	B3	Increased freight revenues offsetting lower passenger traffic but heavy debt maturities cloud outlook for dividend stability.
Lehigh Valley	— 15.1	def1.28	def6.25	.09	Nil	6	66.6	......	C1	Earnings status still weak and operating ratio higher than a year ago. No immediate prospect for dividend.
Louisville & Nashville	— 35.4	8.20	7.49	4.95	3.52	45	9.1	7.8	B3	Net income after charges off sharply compared with early 1946 but trend likely to reverse soon. Small dividend seems secure.
Missouri-Kansas-Texas	— 50.7	1.33	1.48	def3.65	Nil	5	......	......	C3	Revenues expanding but net income down compared with a year ago. Improvement probable in near term. Arrears on preferred may be cleared soon.
New York Central	— 17.5	6.67	3.78	def1.62	Nil	16	......	......	B3	Gross income trending well upward since New Years. Deficit per share cut to 24 cents in first two months.
N. Y., Chicago & St. Louis	+ 71.4	18.17	17.54	10.09	Nil	23	2.3	......	B3	Good prospects for improved earnings in current year but dividends precluded by heavy arrears on preferred.
Norfolk & Western	— 8.7	15.39	16.11	15.54	13.00	226	14.6	5.7	A+2	Freight rate increases have held earnings to only moderate dip compared with last year. Liberal dividend well assured.
Northern Pacific	+ 7.3	6.71	4.66	3.58	1.00	17	4.8	5.9	B3	Heavy shipments of grain and lumber suggest uptrend in 1947 earnings. Dividend stable and may be improved.
Pennsylvania	......(b)	5.31	3.72	def.65	1.00	20	......	5.0	B3	3 months gross up by more than $4 million but net operating income down $3.4 million compared with last year. Earnings status should improve in near term.
Reading Company	+ 29.8	6.07	5.59	1.28	1.00	19	14.9	5.3	C+3	Large movements of coal, if business boom continues, should bring improvement in earnings, despite higher costs. Dividend probably stable.
Southern Pacific	+ 10.0	13.80	8.77	6.70	4.00	38	5.7	10.5	B3	System earnings currently better than last year for early months. Strong finances add long term appeal to shares.
Southern Railway	— 29.1	16.07	10.24	4.82	3.00	35	7.3	8.6	B3	Gross revenues improved but net have dipped recently compared with 1946. But dividend amply covered and outlook favorable.
Union Pacific	— 22.2	18.89	13.07	11.90	6.00	127	10.7	4.7	A3	Further debt retirements ahead. Income from oil and heavy traffic stabilizing income. Strong finances assure dividend.
Virginian Rwy.	+ 31.0	2.62	2.05	1.27	2.50	38	29.9	6.6	B3	Restoration of heavy coal traffic reflected in good upturn in earnings. Dividend amply protected.

*—Based on Current 12 months dividend.
†—As compared with 2 months ended February 28 1946.
(a)—Deficit reported in 1946 period.
(b)—Deficit reported in 1947 period.

Treasure Hunt for GROWTH COMPANIES

By GEORGE W. MATHIS

Amazing statistics have often been prepared showing what tremendous growth your capital would have enjoyed if you had been able to participate in such successful ventures as Ford, Coca-Cola and numerous others—when they were in their formative stages. While the cynical investor may regard these illustrations as opportunities of a "once-in-a-lifetime" nature, there are undoubtedly many alive who can testify that their affluence is based upon purchase and dogged retention of sound growth stocks regardless of market gyrations.

Just as a single example, back in 1920 International Business Machines Corporation had outstanding slightly less than 200,000 shares of common stock selling at about $50 a share. You could have bought 100 shares for $5,000 dollars, on which the 1920 dividend rate of $4 would have yielded $400. Today your investment would be represented by 840 shares which at this writing sell at 193½, or $162,540; bringing you a current annual income of $5,042 or more than your original capital. Furthermore, you would have had a steady flow of cash dividends all through these years. We could quote scores of similar experiences.

Other statisticians have made envious the average investor by compiling lists of stock of companies which were ready to forge ahead, but which were selling at only a few dollars a share at the bottom of the 1932 depression. The reaction of the dubious reader is to dismiss the figures with the thought, "How long would I have to wait for another such market—and if it came would I have enough confidence to buy?" The message of this article is: THERE ARE GROWTH SITUATIONS AVAILABLE RIGHT NOW WITH GREAT FUTURES AHEAD, SELLING AT UNDERVALUED LEVELS. The purpose of this article is practical—to help you to recognize factors to look for in seeking a company which is going to expand dynamically and to name a few which to our opinion seem to meet the requirements for future growth.

Investors want to make money. Their need for conservatism varies with their other aims and their financial circumstances but even the investor relying on his securities for living expenses occasionally has a small fund to dedicate to building up the size of his retirement fund. Therefore, we believe our suggestions will have widespread appeal. For growth you should basically seek *secondary company issues* since established industry leaders already command a premium in their market prices because of their mature position. Make certain of the company's *adequate financial strength* to weather a looked-for recession in general business or a monetary disturbance. Check whether there are relatively large bank loans or other indebtedness that might force reorganization. Determine whether *inventories* would be suitable for profitable sale under normal conditions. Pick shares of companies with a line of *good products or services* which will be in strong demand in the coming years; and which are active in developing new products or markets. Look carefully at the firms' control of patents, inventions, franchises. Avoid those where products may be merely fads. Prefer companies with a *low labor cost factor.* Select companies *favored by secular growth*—where the trend of earnings is upward to an extent exceeding competitors. Be sure to discount non-recurring items in estimating income trend. Examine the record painstakingly during past depression or minor slump years to see if *operating income was maintained* better than the average in the industry.

Keep away from shares already selling on a very high price-earnings ratio as their prospects have probably been largely discounted. Do buy where there is a *small share capitalization* so growth is quickly and more substantially reflected in per-share earnings and dividends. Of utmost importance stress *courageous, foresighted management.* Consider company policies on research, advertising, accounting practice, dividend distributions, financing, labor. Investigate the reputation and record of the officers and directors for sagacity in their plans.

Not all of the above qualities may be found in a single issue but a combination of at least several of them should be sought. Because of the present market conditions, we have placed emphasis upon well-established units in our selections, rather than comparatively new companies.

It is interesting and should prove timely to find a number of companies of unusual promise for the next several years or more. Reduced civilian business during the long war period—which was much longer than the first world war, has brought a great need for goods. New developments and new products are important levers which will be used to raise earn-

ings. We have tabulated information upon ten companies which we feel are worthy of study, and shall comment upon a few in this brief survey and indicate some qualifications to search for in determining companies of promise.

While it might be argued that many stocks are selling above their 1929 high prices, we would reply that this is justified in certain cases, as for example, American Chicle analyzed in the current issue under "RECESSION RESISTANT STOCKS." Our market analyst, Mr. A. T. Miller will indicate when the time is right to make new purchases of growth stocks.

An example of a company which possesses long-term growth possibilities and has large main divisions which are expanding rapidly is the Pittsburgh Plate Glass Co. The backbone of this organization is, of course, plate glass, while paint is of major importance. There should be general agreement that plate glass will be used in increasing quantities for a long period of years. Output of this product, and also of paint, must be increased to supply the current demand. The chemical and plastics divisions have unusual promise. The company had a magnificent war record in all divisions, and most of the products developed have peacetime application. For example, "Ptttchlor," a wartime product has proved its utility as a bleaching, germicidal and disinfecting material. There is heavy demand for the company's products such as soda ash, caustic soda, chlorine, etc.

Early in the war the Columbia Chemical Division of Pittsburgh Plate Glass engineered and constructed for the Government a large chlorine-caustic soda plant at Natrium, West Va., and operated it under lend lease until early in 1946, when an option to purchase was exercised. This acquisition, plus the purchase of the assets of the Pacific Alkali Corp. at Bartlett, Cal., in 1945 and major expansions of the Barberton, Ohio plant early in the war, has raised the output of Columbia Chemical substantially above prewar figures. Additional facilities at the Barberton, Ohio plant for the production of Silene began operation early in 1947; this relatively new pigment is gaining popularity in the rubber industry. The earnings record alone indicates that Pittsburgh Plate is a growth situation; net profit increased to $15,321,000 ($1.79 per share, adjusted) in 1936 and $18,287,000 ($2.13 per share) in 1937 from the previous high of $11,700,000 ($1.34 per share) in 1929. While earnings of $17,061,000 ($1.92 per share) in 1946 had not exceeded the previous peak in 1937, it is our considered opinion that they will do so this year, and the increasing use of plate glass and the growing chemical division will result in substantial gains in earnings in future years. The stock is selling around 34, or 30% below the 1946 high of 48¾, which price can be termed a substantial discount in view of the financial strength, earnings and continuous dividends for forty-seven years.

Doehler-Jarvis Corp. shows substantial immediate earnings; and, as will be indicated, available funds are being used to expand the plants. Thus, growth will be in future dividends above the current $1.00 annual rate. The corporation inaugurated an expansion program in October, 1945, the total cost of which through 1946 was approximately $4,200,000, and it is estimated that completion about August, 1947 will involve expenditure of approximately an additional $2,000,000. Most of these expenditures have been and are being financed through investment of earnings and when completed, the corporation states, "we will then have the most modern die-casting and finishing plants in existence, and we will have about treble the prewar capacity."

The process of die-casting or making pressure casting in steel dies in the shortest route between raw material and finished part. Thereby it becomes a labor-saving process. When you visit a die-casting plant, you will see liquid metal poured in one end of the machine and within 10 to 15 seconds, the other end will deliver a finished part, practically speaking. A picture in the corporation's 1946 annual report shows a modern semi-automatic die casting machine that weighs about 20 tons and produces castings up to about 30 pounds. "Whenever there are mechanical parts used in quantities, the die-casting process is invariably resorted to." Industries using the die-casting process in turning out diverse products include: Automobile, washing machine, vacuum cleaner, sewing machine, camera and motion picture, toy, electric appliance field and home appliance. The Jarvis Division makes plated and finished casting principally for the automobile and plumbing industries.

Mead Johnson & Co. (*Please turn to Page* 179)

Pertinent Statistics on Selected Growth Companies Stocks

	Sales Volume (000 omitted)			Net Per Share			Current 12 mos. Dividend	Net Property (000 omitted)			1946 Reserves for Contingencies (000 omitted)	1946-47 Price Range	Recent Price
	1936	1941	1946	1936	1941	1946		1936	1941	1946			
Abbott Laboratories	$7,767	$16,744	$54,210	$1.10	$1.45	$5.79	$3.40	$1,894	$3,650	$7,389	$2,000	91 -61½	$72
Bond Stores	17,591	45,328	74,589	1.71	1.98	5.93	2.15	1,293	2,895	8.412	Nil	48¼-27⅛	28
Doehler-Jarvis	13,210(a)	28,916(a)	44,167	1.33(a)	2.15(a)	4.59	1.00	2,778(a)	4,686(a)	6,857	300	37⅞-23¾	32
Fruehauf Trailer	9,705	34,276	76,658	1.33	2.31	4.22	1.00	774	4,339	15,526	Nil	48 -27¼	28
Hussman-Ligonier	2,127	4,230	9,853	1.43	1.83	5.42	1.70	247	469	1,360	142	37 -18	24
Mead Johnson	5,724	9,704	22,927	.88	.98	1.81	1.00	2,187	3,758	4,708	207	37½-25	26
Minn. Mining & Mfg.	N.A.	32,351	75,169	1.39	2.36	5.08	1.60	2,950	6,759	13,083	930	60 -40¼	54
Pitts. Plate Glass	86,110	128,004	184,661	1.79	1.70	1.92	1.20	60,271	65,100	71,413	5,681	48¾-30	34
Square D	6,227	27,425	29,155	1.07	2.13	1.96	.80	1,143	2,810	2,780	52	25⅛-14⅝	15
Sylvania Electric	10,234	20,561	69,313	2.25	1.78	1.97	1.35	1,468	2,756	11,867	90	41 -19¼	22

(a)—Combined figures of Doehler Die Casting Co. and W. B. Jarvis Co.
N.A.—Not Available.

Special Selection of RECESSION RESISTANT STOCKS

By THE MAGAZINE OF WALL STREET STAFF

Investors in common stocks, upon the occurrence of every recession become acutely aware that some issues have resistant properties which make them superior for investment in parlous times such as the present. In view of the low rate of return on savings deposits, bonds or high grade preferred stocks, the common stocks selected deserve consideration. They are more stable than the average common stock, and where funds have been specifically apportioned to common stocks, have merit for investment instead of fixed income securities.

Some Desirable Characteristics

Recession resistant stocks that we favor have several of the following characteristics: (1) Sales of companies steady during and resilient following past recessions. (2) Low inventories. (3) Low-priced products so that consumers will not shy away when the going gets tough. (4) Excellent management, which of course is necessary for any company in which one employs funds. (5) High net return on invested capital which would allow continued profits in the event of price reductions. (6) Strong financial condition. (7) Comparatively good earnings in previous recessions giving relative stability. (8) Low labor costs. (9) Comparatively steady market action of the stock.

Obviously, a single company may not have all of the qualities of which these are features; but each is considered sufficiently attractive in several respects to offset lack in certain others. In the space allocated, the number of companies discussed is limited to five. We do not present analyses of some of the favorites in the field of steady earners such as International Business Machines Corp., or the soft drink companies, as it would involve repetition for our steady readers who have seen comment and analyses of these securities in recent issues of THE MAGAZINE OF WALL STREET.

American Chicle Co.

One of the first companies we have chosen as meritorious is American Chicle a producer of popular, low priced chewing gum. While there was a slight increase in wholesale prices charged by the company in the latter part of last year it was not sufficient to warrant a price higher than 5c to be charged by the retailer. Some are taking advantage of inflationary conditions and charging more; but unjustly so, and as conditions become easier, restoration of five cent gum throughout is expected and therefore some current sales resistance will be overcome. This may further improve sales and earnings which have recorded a sharply rising trend. Sales, reported until 1945, made a larger increase in the depression year 1938 than those of the company's competitors.

Historically, Adams Dentyne gum was the first product and was introduced by the present management in 1922. In later years, Beeman's Pepsin and Adams Chiclets, other Adams gums and Sen-Sen—for throat ease and breath correction, began to command their huge markets under a continuing policy of "quality control" as the first consideration of all products. The end of the war found no reconversion problems and a market enhanced by many new users. The sugar supply position is now easier after being tight for the last two years; Government controls of sugar also were eased with good prospects of their removal this year. When conditions are more propitious, a split-up of the stock is likely.

Financial position is very strong despite investment of about $1,000,000 in plant in the first full postwar calendar year. The latter doubtless was a factor in the increase in earnings to $2.60 per share in the first quarter of 1947, against $1.72 in the same period of last year. These results can be projected ahead and indicate over $10 per share for the year. The current price of the stock of 14 times earnings seems fully justified. At the recent price of 140 and dividends at last year's conservative rate of $5 per share, the stock yields 3.56%.

Life Savers Corp.

A company largely dependent on the sugar supply is Life Savers Corp., producer of that well known brand of many flavors. The easier sugar position was shown by the increase in Government quotas from 60% of 1941 consumption in the first quarter of 1947 to 75%, as this company stated, "effective April 1st, has already been made and it is hoped before the year-end that sugar rationing may end and business get back to normal competitive conditions." Earnings

have been sustained during past recessions, and the most satisfactory condition today is that the dividend of $1.85 paid in 1946 probably will be exceeded this year, and at the current price of 34 the stock yields 5.40%. Dividends are sustained not only by steady earnings which in 1946 were $2.77 per share, but also by cash and marketable securities alone of 4½ times current liabilities. Inventories are low, and after war service, the company has just begun to supply more freely its many thousands of dealers.

Diamond Match Co.

The great advantage of diversifiation was well shown by results of Diamond Match in 1946. From the latter part of 1945 until past the summer of 1946, seven of the eight factories producing matches or associated with the match business were closed by strikes for periods ranging from 40 to 160 days. Dollar volume of match sales in 1946 represented only 38.5% of total net sales as against 45% for the preceding year. However, the company states: "The strikes resulted in a great loss of production, but this fact, although unfortunate in a national sense, actually saved the company from heavier losses in its match business during the time that O.P.A. ceilings were in effect and prices of matches fixed with a total disregard for the gross cost of production." While the problems of the match production continue to be formidable, and made the match division unprofitable for 1946, the diversified operations and sources of income, "assisted by a great measure of fortuitous flexibility, which was utilized to the limit," made possible the record high net earnings of 1946. The other divisions, which came forward so well in most cases are: Lumber and lumber products, special machinery and foundry products, building materials, chemicals, paper specialties and miscellaneous products.

Before stating earnings per share, the provisions of the preferred should be mentioned. The issue, now outstanding at 600,000 shares, $25 par value, is entitled to cumulative dividends of $1.50 per annum, and participates with the common stock, after the latter has received $1.50 in any fiscal year, in additional non-cumulative dividends up to 50c per share and no more. Dividends were $1.50 per share in the yar years; but in 1946, $2.00 per share on both issues, with the extra of 50c on both issues paid March 1, 1947 out of 1946 earnings. On the basis of $2.00 per share on the preferred, earnings per share of common were $2.32 per share last year, against $1.70 in 1945 and the average of $1.58 in the four prewar years, 1938 to 1941. The common stock is outstanding at 700,000 shares.

The company benefitted largely during 1946 because of its relatively favorable position in operating both manufacturing facilities for lumber production and retail sales outlets to serve directly the ultimate user. Thus, at a time of relative scarcity of lumber in the market and during a period of great demand for home building and industrial conversion of plants to normal production, the retail outlets of the company (sixty-five in California and thirty-three in New England) have been in a leading position in their respective areas to provide the needed lumber. Wood operations in California concentrated on salvaging as much as possible of the timber killed or damaged in the forest fire of September-October 1945, which burned over some 15 square miles of the company's timberlands. Because of operating difficulties costs were about $6 per thousand feet above normal; but lumber produced in 1946 was 37.3 million feet against 31.6 million feet in 1945. Lumber produced at the northwestern sawmills was 51.3 million feet in 1946, an increase of 34.3% over 1945; and in New England, production and purchases increased 78.8% to 83.7 million feet.

Match prices were increased as much as seemed prudent following the elimination of ceilings in November, 1946. By reason of diversified operations the somewhat easier prices of other lumber products should not materially affect earnings. The financial condition is unusually strong with net working capital of $27,656,000. At 16 times last year's earnings, the stock may be favored in view of the financial strength and relative stability over a period of years.

Procter & Gamble Co.

Procter & Gamble is so large and important that it is said to account for about one-half of this country's soap output. Soaps and shortenings are sold under brand names, perhaps the best known of which are "Ivory" and "Crisco." Among its one hundred products are "P. & G. Naptha Soap," "Camay Soap" and the granulated soaps sold under the trade names, "Oxydol" and "Duz." It normally obtains supplies of copra and oils, particularly cocoanut oil, from the Philippine Islands and the Dutch East Indies. Imports, shut off during the war, have now been resumed and the increases this year, as well as in tallow and grease and lard output have resulted in a better supply of soap fats and rising

Comparative Market Action on Selected Stocks

	1929-1932 Depression 1929 High	1932 Low	% Decline	1936-1938 Recession 1936 High	1938 Low	% Decline	1946-1947 Rally 1946 Low	1947 High	% Rise	Recent Price
The Magazine of Wall Street Common Stock Index	173.1	17.5	90%	122.0†	44.2	64%	129.8	148.8	15%	123.3
American Chicle	81⅝	18	78	113⅛	88½	22	120	156	30	145
Diamond Match	24⅞*	12	52	40½	20¾	49	34½	47	36	37
Life Savers	Incorporated in August, 1933			15 9/16	12½	20	28⅞	35	21	34
Procter & Gamble	.98	19⅞	80	65½*	39½	40	53	65⅝	24	62
Reynolds Tobacco "B"	66	•26½	60	60½	33¾	44	36¼	44⅛	22	37

*—1939 High; Company was incorporated in 1930.
†—1937 High.

output. Consumer demand is strong and should continue to equal supplies for a further period. Profit margins may be pared, however, with the 10% price cut in soap products just announced.

In reporting earnings of $3.80 per share in the nine months ended March 31, 1947, the company stated that net income was $24,487,857, after substantial reserves in the March quarter and provision of $14,500,000 for inventory price declines in the first six months of this period. Thus, earnings were at an annual rate of over $5 per share after reserves. The stock is selling at 60, or 12 times latest indicated earnings and 16½ time average earnings of the five prewar years, 1936 to 1940. It continues to follow the wartime policy of excluding earnings of Canadian, English and Philippine and Java subsidiaries. Financial position is practically impregnable and dividends have been paid in good and bad times since 1891.

Larger earnings than the prewar average of $3.65 per share of common should continue to permit extra dividends. The regular of 50c quarterly has been augmented by extras of 75c in the first two quarters of this year. While the exact dividend and yield cannot be estimated, the yield should prove to be satisfactory in comparison with other stable stocks, and the issue sells at a reasonable price-earnings ratio.

R. J. Reynolds Tobacco Co.

One of the most stable shares in the market, Reynolds Tobacco class B common stock is outstanding at 9,000,000 shares, and the common stock of the company, which commands voting power and otherwise ranks equally with the common B, is outstanding at 1,000,000 shares. The aggregate of 10,000,000 common shares was preceded, at the close of last year, by $49,000,000 of 3.60% preferred and $141,000,000 notes payable of which $77,000,000 are due this year and the balance are long-term. The average interest on the notes and dividend on the preferred stock is only about 2.4% which shows the great advantage of easy money rates for funds borrowed to carry inventories. The common stock benefits from these low rates on senior capital as income in the course of business is well in excess of the approximate average rate of 2.4%. The income over the amounts used to pay senior charges and dividends accrues to the common equity, and can be used for either increasing the equity (equal at the close of last year to $17.21 per share), or for payment of dividends. The stock sells at 37⅛, or the market is affected more by earnings and dividends than by the book value which is less than one-half of market.

The income account of this producer of "Camel" cigarettes and other tobacco products showed an increase in sales last year of about 25% over the new high level up to that time that was made in 1945, when earnings were $1.85 per share. Net income in 1946 was equal to $2.62 per share and dividends, $1.75 per share. At the current price, the stock yields 4.7%, and is selling 14 times last year's earnings which were only slightly above the prewar average of $2.45 in the four years, 1938 to 1941. In view of the current low interest rates and greatly increased volume of business, as well as the fact that prices of cigarettes were increased 28c a thousand April 29, 1946 and 26c a thousand October 14, 1946, it seems probable that a further gain in earnings will be recorder this year. Earnings were $2.18 per share—reported about August 26, 1946, for the 12 months ended July 31, 1946.

Dividends have been paid without interruption since 1907. It is interesting to note that in 1946, of the 62,775 holders of the 10,000,000 common shares, 30,254 were women, 21,992 were men and 10,529 were trustees, institutions, firms, etc.; 200,000 shares are the sole investment of the company's retirement and insurance fund and that this amount has been held for many years. A further reason to expect an increase in earnings this year is that while the supply of tobacco in 1946 was restricted and allocation of cigarettes by the company was necessary, the quantities of matured tobacco are increasing and will be sufficient to meet the demand.

Market Action of the Shares

Market action is shown in the table of the shares in comparison with action of the Magazine of Wall Street Common Stock Index. It would be purely guess work to say which stock would do best in the next decline. The case of each company has been presented and the investor, of course, can make a choice, select several or buy all when our market counsel in The Magazine of Wall Street recommends acquisition of investments.

In preparing the comparative action table we have used The Magazine of Wall Street Common Stock Index of 304 most active equities because it is more representative than the Dow Jones Averages. It includes the 100 most active low priced stocks, the 100 most active high priced stocks and 104 issues in a medium price range. The first comparison is that provided by the 1929-1932 depression when the general market declined 90% in price. During this phase Diamond Match depreciated only 52% for the best record of the five issues listed.

The second comparison represents the 1936-1938 recession, when the general market price level dipped 64%. In this time Life Savers showed the strongest resistance with a drop of only 20%, American Chicle was a close second with loss of only 22%. In making our selections we gave heed also to the recuperative powers of the issues chosen. This is brought out in the third comparison constituting the rally from the October, 1946 lows to the February, 1947 highs. The index of market prices gained 15%, while all the stocks were able to better this performance. Outstanding in its action was Diamond Match with a recovery of 36%. American Chicle came second in strength with a 30% rebound in price.

It is evident that no one issue can be selected which will show the greatest degree of resistance in each market recession or the most favorable recovery in periods of bullish nature. For this reason it is well to diversify your commitments over several issues and take the combined performance as the result.

The five stocks selected by our staff are suitable for the more conservative investor in common stocks who desires to employ part of his funds in issues more interesting for stability than for other reasons of which one would be growth characteristics. A few of the latter companies are described in this issue under the title, "Treasure Hunt For Growth Companies." It would appear to be a wise policy during the current transition period from war conditions to fully readjusted peacetime business conditions, to have an investment in some stable common stocks.

Investment Reappraisal of SUGAR Companies

By WARREN BEECHER

Nature has a way of healing our economic ills as well as our physical ailments. Take the case of the world's intense sugar deficiency, for example. The headaches of rationing have disappeared. With the help of Mother Nature, the serious wartime shortage has been transformed into apparent abundance.

Photo by Ewing Galloway

Cutting sugar cane in Puerto Rico, a leading source of our sugar supply

Millions of housewives, retailers, bakers, candy makers, soft drink bottlers, etc., accustomed to self-denial and black markets, now are being entreated to "come and get it." It is little wonder that they scarcely know how to act. Forecasts of a continued tight supply situation throughout the year already have become obsolete. Instead of anxiety over possible sharp price advances when rationing officially ends in October, the trade now is experiencing concern over excessive stocks in the hands of refiners when the next Cuban crop is ready for harvest. What has brought about this swift change? These are some of the factors being mentioned:

(1) Cuba and her neighbors in the West Indies, spurred by profit incentives, have produced a bountiful crop. With harvesting virtually complete, Cuba's 1947 output promises to exceed 6 million tons, more than half of which has been processed for shipment to refiners. This volume not only tops previous yields but approximates the total produced in all areas supplying the United States domestic market two years ago. Considering the fact that pre-war domestic consumption averaged almost 6.8 million tons, it is apparent that supplies from Cuba alone would go far toward meeting normal domestic requirements.

(2) Demand for cane sugar has slumped in some industries. Candy makers, for example, are not taking all their increased quota, because they have encountered consumer resistance to high prices. Sharply increased labor costs and advances in cocoa (chocolate) have priced some confections out of their normal market. Bakers, too, have found that substitutes, such as corn sugar, honey, etc., on which they were compelled to rely during the war, are as satisfactory as sugar and are available at competitive prices. Many industrial consumers learned in the period of scarcity how to stretch raw materials to reduce costs and until consumers express greater discrimination the trend back toward sugar may be slow.

(3) Consumer buying habits have changed. With removal of the fear of an impending shortage, the need for accumulating inventories has subsided. Users therefore have been working off abnormal supplies and have restricted new orders to immediate needs.

Increased production and changing consumer habits promise to have considerable influence on legislative trends so far as sugar is concerned. Ever since the boom in commodity prices in the first World War and the fantastic rise in sugar to more than 20 cents a pound and the subsequent collapse that ruined many Cuban producers, politics have played an important part in determining policies. Government assistance became essential in regulating production and averting disastrous competition. The quota system which grew out of international agreements of the 1930's is authorized in the Sugar Act of 1937 which is scheduled to expire by limitation December 31, 1947, but already the trade has been stressing the possibility of seeking another extension. This suggests some anxiety over the threat of overproduction in the not too distant future.

In the light of rapidly changing economic conditions, it seems appropriate to reappraise the outlook for sugar producers. There seems little doubt but that the large crop being harvested by off-shore

producers and the unusually favorable profit margins now prevailing assure substantial profits for principal Cuban companies. Domestic beet concerns also should fare well provided weather conditions are favorable and that the squeeze imposed by rising labor costs becomes no more burdensome. Because it is impractical to issue interim earnings statements, forecasts of profits must be based on general economic factors. These suggests that 1947 results for the industry may stand as the highest of the current cycle of prosperity.

Prices to be paid Cuban producers under the terms of the purchase agreement arranged by the United States and Cuban governments are the highest in many years. A basic minimum price of 4.92½ cents a pound has been guaranteed and this figure may be raised to correspond with any advances in food prices in this country. More specifically for every increase of 2 per cent or more in the quarterly average of our monthly index of retail food prices a similar boost must be made in the quotation for sugar shipped from Cuba. Even though food prices may decline, the official figure to be paid remains at the highest level previously reached. Hence Cuban producers seem assured of receiving practically 5 cents a pound on the record crop of 6 million tons being harvested.

Although wages paid Cuban labor also rise in accordance with price advances, it seems apparent that the increase in volume this year of 40 to 50 per cent may mean higher earnings than most producers experienced even under favorable wartime conditions. In view of the uncertain price situation, however, managements may adopt conservative accounting practices and set up reserves that would have the effect of moderating actual earnings reported.

The need for a cushion to sustain earnings in event of a reversal in current conditions is evident in the fact that wage costs have been raised sharply since the beginning of the war. The advance in compensation for growers and mill employees has been steeper because the government in power in Cuba has pursued a policy regarded by many as Socialistic. Wage increases have been mandatory and have been enforced by the government through Presidential decrees. Managements of Cuban properties feel some apprehension toward profit margins when prices take a downward course and reductions in wages become necessary. This factor represents the principal adverse element in the picture.

In spite of the reluctance of some consumers to use as much sugar as they did in pre-war operations, the outlook seems favorable for a larger over-all consumption in the next two years at least. The public has been starved for soft drinks, candies, chewing gum, pastries and other items requiring sweetening. With purchasing power receiving another stimulant from nationwide wage increases, it seems reasonable to look for sustained demand for products which have been in short supply. In other words, the sales of soft drinks and similar consumer goods should experience record growth this year provided producers and distributors avoid the mistake of advancing prices and encountering buyer resistance.

Although concern has been expressed in some quarters over the possibility of distributing price advances when rationing control ends October 31, there has been evidence lately of reassurance along these lines. One or two of the large refiners are reported offering contracts at present prices running through the remainder of the year. This would seem to reflect confidence that supplies will be sufficient to meet any increase in industrial requirements when restrictions are removed.

The possibility of further price advances has been suggested as a favorable factor for domestic beet producers whose crops will be coming to market about the time rationing is discontinued. The beet concerns do not need higher prices, however, to assure profitable operations if weather conditions are normal. The beet companies have developed mechanization to a high degree in recent years when a shortage of farm labor made it imperative to adopt more modern methods of planting, cultivating and harvesting beets. Through increased use of mechanical devices seeds of uniform size can be planted at much lower cost than formerly. New processes of refining have also been developed to obtain greater recovery of valuable by-products. These trends have helped to compensate for rising costs and to permit the industry to survive.

	— Net Per Share — 1945	1946 Fiscal Year*	Current Ratio	Current 12 months Dividend	Recent Price	Current Yield
American Crystal Sugar	$ .99 Mr	$1.37 Mr	4.1	$ .90	$21	4.3%
American Sugar Refining	3.17	3.60	4.1	2.50	41	6.1
Central Aguirre Assoc.	1.38 Jl	.97 Jl	11.7	1.50	21	7.1
Cuban-Atlantic Sugar	3.14 Se	4.25 Se	3.3	2.62½	22	11.9
Central Violeta Sugar	5.14 Se	5.58 Se	4.1	2.50	26	9.6
Cuban American Sugar	2.45 Se	2.11 Se	4.5	1.50	16	9.4
Fajardo Sugar	.49 Jl	def .15 Jl	7.8	1.00	28	3.6
Francisco Sugar	.74 Je	3.99 Je	1.3	Nil	18	......
Great Western Sugar	.88 Fe	1.19 Fe	5.4	1.60	24	6.6
Guantanamo Sugar	.55 Se	1.01 Se	2.2	Nil	5½	......
Holly Sugar	1.13 Mr	1.36 Mr	4.0	1.00	18	5.5
Manati Sugar	1.19 Je	1.54 Je	2.0	.25	9	2.8
National Sugar Refining	2.46	3.07	2.4	1.55	25	6.2
South Porto Rico Sugar	4.06 Se	7.49 Se	7.8	6.35	43	14.7
Vertientes-Camaguey Sugar	2.40 Se	3.08 Se	2.2	2.00	16	12.5
West Indies Sugar	4.06 Se	6.18 Se	3.5	2.50	28	8.9

*—Where the fiscal year period ends other than December 31, the month of the fiscal year end follows the earnings figure.

Among Cuban producers, Cuban Atlantic is regarded as a major factor. Earnings this year are expected to run well ahead of the $4.26 a share reported for the year ended September 30, 1946. West Indies Sugar, which operates in San

(Please turn to page 177)

FOR

PROFIT

AND

INCOME

Timing

It will soon be one full year since the bear market began, but the low to date in the Dow industrial average was made over six months ago. If it was the final low, never was a protracted bull market (1942-1946) followed by so short a bear market. If it was not the final low, why all this fooling around? Everybody knows we are on the verge of a business recession. For a time, just before the steel wage settlement, the average seemed pointing to a new low, in line with rails and a majority of individual stock groups. But it paused. It has paused on the downside a half dozen times or so in the area 163-166. The recent teetering act can hardly continue much longer. This column will venture only one thought. If the industrials manage to go another four to six weeks without breaking that old low, it will look like a pretty good bet either that it is not going to be broken this year or that, if it is, a good rally will come first.

Break-Even Points

The average company requires larger sales merely to break even than it ever did in the past because of the great rise in wage and other costs. However, it is not possible in any individual situation to figure just where the break-even point is, either in terms of percentage of capacity or dollar volume of sales required. In most cases it is not a fixed point. Before profits hit zero, as they do at a break-even point, managements begin to cut corners. They may lay off some workers, which usually increases the efficiency of the remaining help, thereby tending to lower the break-even point. A manufacturer of diverse products may halt production of the least profitable, concentrate on those with widest margins; again lowering the pay point. A variety of other adjustments are possible, varying with the line of business. However, it is not particularly important that one is unable to estimate pay points with any degree of exactness. To note that they are mostly higher than ever before should be enough to put investors on guard. There cannot be any doubt on the proposition that any given percentage decline in sales and/or selling prices will reduce earnings of most companies more than the same percentage shrinkage would have done before the war.

Case In Point

Profit margins in some instances emphasize the vulnerability of earnings, given any significant falling off in sales. For example, present steel earnings are good only because volume is unusually high. In short, the volume is more extraordinary than the profits. If you take the operating profit as a percentage of sales, it will be found to be below that of good prewar years in most cases. For United States Steel it was about 11% in the active fourth quarter of last year, compared with 13% in as mediocre a steel year as 1939, nearly 17% in 1937, about 18% in 1940, over 22% in 1941 and nearly 25% in 1929. This column doubts that the break-even points of most steel makers are now under 70% and would not be surprised if it is 75%. Given moderate weakness in prices (including the highly flexible "ex-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		Latest Period	Year Ago
Calumet & Hecla Cons. Copper	Mar. 31 quarter	$ .42	$ .05
Commercial Credit	Mar. 31 quarter	.66	.31
Derby Oil	Mar. 31 quarter	.73	.26
Hinde & Dausch Paper	Mar. 31 quarter	1.90	.99
Jones & Laughlin Steel	Mar. 31 quarter	2.41	.13
Mengel	Mar. 31 quarter	1.29	.30
Phillips Petroleum	Mar. 31 quarter	1.26	.86
Skelly Oil	Mar. 31 quarter	2.98	1.65
United States Lines	Year Dec. 31	4.92	1.51
United States Steel	Mar. 31 quarter	3.78	.45

tras"), it suspects that present steel profits might be cut two-thirds, or more, even on something near an 80% of capacity operation, which in years gone by was good business.

Another One

Retailing profits are sliding—because of markdowns and higher costs—before there is any decline in volume or any significant degree of recession in the general price level. For instance, sales of Marshall Field in the first quarter of this year were up about 11% from those of the like period a year ago, but earnings for the stock were down about 21%. Well, what happens when sales turn really down and inventory has to be turned over with the general price level falling? Certainly it will not be good. It could be pretty rugged. The next question is whether the potentiality has been fully discounted. The writer doubts it; and in any event is fairly sure that nothing will be lost by demanding more conclusive market evidence on that point. Stocks under an earnings cloud may or may not go lower, but are most unlikely to get going on a sustained rise.

Test Of Theory

In some stock groups prices had been cut in half, or thereabouts, at the market lows of last autumn. For these at least it had already become a major bear market. Three interesting examples are liquor stocks, retail trade stocks and motion picture stocks. They were sensations on the upside in the bull market, especially in its extended concluding phase after V-J Day. They were among the first to weaken, and then to nose-dive. If there is anything in the theory that the market in general has fully discounted the coming business recession, these stocks in particular ought to be under-priced by now. But there is little or no evidence to that effect. In the latest market downswing all three of these stock groups went to new bear-market lows by a decisive margin. Where the news reports relating to individual companies are on the adverse side, the stocks in most cases hit new lows. There is bound to be more "bad news" on the financial pages and in the company reports as recession gets going. And the public still seems to sell stocks after the news is out. All of which makes this column feel much more cautious than bullish.

Percentage

From the 1942 low to the 1946 high our index of 100 low-price stocks rose about 683%, against 160% for the index of high-price stocks. In other words, the opportunity or potentiality for profits was over four times greater in the low-price stocks. Of course, it works the other way in a bear market—or does it? The high-price stock index is now down about 31% from its high; the low-price index 42% or nearly one-third more. But, again figuring from the 1942 lows, the low-price stocks, as of right now, are still up 354%, against 78% for the high-priced. So the differential is still over four times greater in favor of the more speculative group. Naturally, if the bear market becomes as extreme as a number of previous ones have, the low-price stocks can fall out of bed from present prices. However, this writer feels pretty sure they are not going back anywhere near the give-away 1942 lows. If that is right, it is not too soon to be earmarking some speculative candidates, even though buying time is "around the corner" and thus indefinite. For ideas we refer you to our March 29 issue where we presented a survey of the 100 most active low priced stocks, with ten promising selections.

Trading Up

But maybe you are the worrying kind. If so, the preceding item is not for you. If you can't sleep nights on account of your stocks, they are the wrong kind for you—though they might be good enough for somebody else. In that case, you ought to figure peace of mind as a desired asset in any stock you hold, the lack of it as excessive liability. What can you do about it? Sell the worrisome stocks. You'll be surprised to find that the established loss is less painful than the one you already have on paper—or, at least, it will become so in a very short time. All real worryers ought to trade up, switching from poor stocks to good ones. You know the ones that bother you. We do not. But we know some that involve a minimum of worry—as little as any common stock ever can. They include, for example, Abbott Laboratories, Gulf Oil, Union Carbide, Woolworth, Procter & Gamble, Diamond Match, Sterling Drug, and Consolidated Gas of Baltimore. Many more could be named, especially among leading operating utilities.

A Good Value

We direct your attention to Standard Oil of California as an outstanding value for those having more reserve cash than they wish to leave idle. The stock is priced at around 55, less than 10 times indicated earnings of about $6 a share this year. The dividend, just increased to $3.40 a year, yields over 6%. The book value is over $50 a share. The long-term record is excellent. With its major foreign stake in the Mid-East fields, few oils have greater growth potentials. In view of U. S. foreign policy as to that area, the stake is likely to be fully protected.

Woolworth

The stock of Woolworth, leading variety chain, is probably in a long-term buying range, though we cannot say it is bound to be

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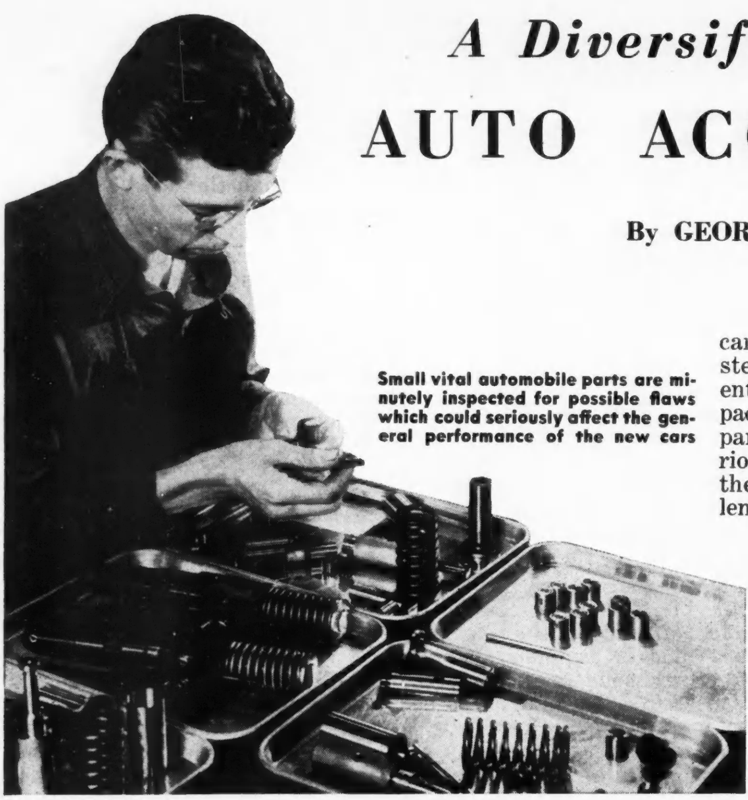
DECLINES SHOWN IN RECENT EARNINGS REPORTS

		Latest Period	Year Ago
Aldens	Mar. 28 quarter	$ .70	$1.33
American Bank Note Co.	Mar. 31 quarter	.67	.81
American Home Products	Mar. 31 quarter	.46	.65
Consolidated Edison Co.	Mar. 31 quarter	.85	1.12
Hazel-Atlas Glass	Mar. 29 quarter	.49	.64
Memphis Natural Gas	Year Dec. 31	.35	.39
Nehi	Mar. 31 quarter	.18	.21
Parmelee Transportation	Mar. 31 quarter	.20	.90
Pennsylvania Coal & Coke	Mar. 31 quarter	.29	.59
Stone & Webster	Mar. 31 quarter	.24	.42

A Diversified Stake in
AUTO ACCESSORIES

By GEORGE S. KENT



Small vital automobile parts are minutely inspected for possible flaws which could seriously affect the general performance of the new cars

Photo by Ewing Galloway

A clear-cut, assured and large demand for auto accessories was indicated by the statistics, just released for 1946, of automobile registrations; and by the record for the last three years of automobiles scrapped. Thus, R. L. Polk & Co. estimates that only 786,866 passenger cars were scrapped between 1944 and 1946, against a normal scrappage of more than two million cars annually. The figures show that as of December 31, 1946, there were 25,142,527 passenger cars and 5,067,065 trucks registered in the United States.

Old Cars Are Kept In Use

The above figures may be compared with total United States prewar car registrations, at the end of 1941 when 28,968,114 passenger cars and 4,838,378 trucks were in use. As shown by these statistics, motorists, by and large, were retaining their old jalopies through 1946, and as yet there is scant evidence of a change in this policy despite new car and truck sales of around 100,000 per week. We went through practically four years (1942-1945) without being able to buy new cars and as a result, those on the road average a ripe old age and no doubt have a "dog's life" in the job of keeping going. In order to revive them, from time to time new parts are needed and a great deal more often than when they were younger. Many people are driving their old cars until new units are available at prices and values acceptable to them, or are awaiting new improvements.

The availability of parts for old cars are limited more by the shortage of steel, copper, lead and other materials that enter into their production than by capacity to produce. As a result, delivery of parts has been slowed with waiting periods for many of them. This draws out the demand for longer periods, and should lengthen the prosperity of the automobile accessories industry well beyond two years. It puts the time well ahead when these companies will sell the largest part of their output to the automobile companies for original equipment of new cars. Profit margins of the accessories companies are well known to be low on the large orders placed by the motor car companies, so that while the latter will extend the period of good business volume, they will not necessarily extend prosperity. However, as previously indicated, prosperity seems sustained for them by the needs of keeping old cars in service.

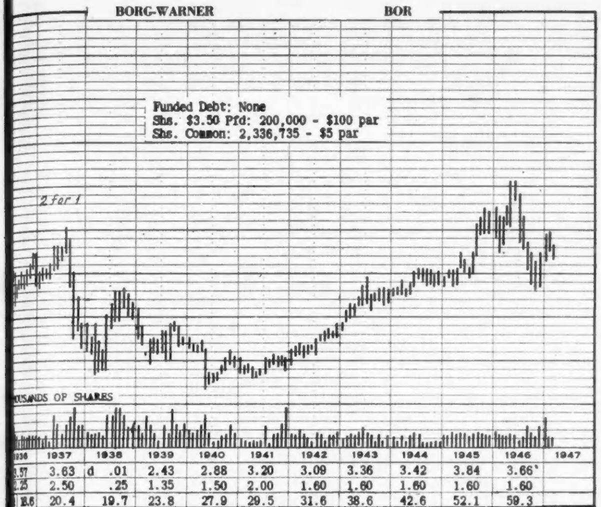
More Raw Materials Needed

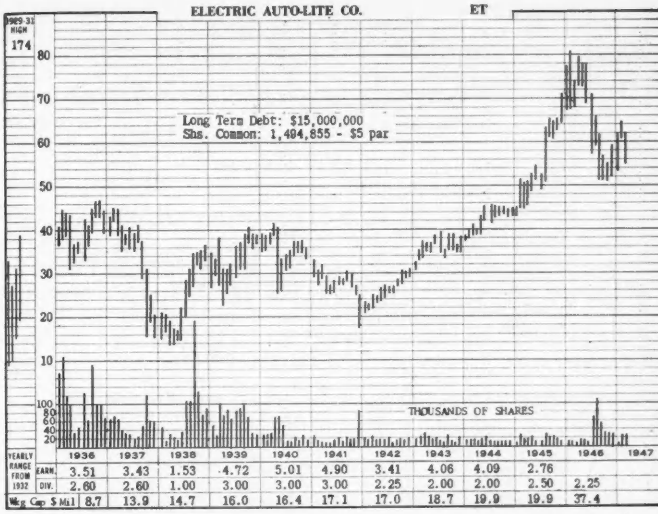
A number of raw materials are known to be tight. For example, copper recently sold at 23.75c f. a. s., New York, or 2.25c over the previously prevailing price. The desperate consumer position must continue for some time, even though the copper tariff was suspended because Chilean producers are reported to have made commitments for their tonnages for the second and third quarters. The shortage of raw materials affects production more than profits for when prices are increased, the higher costs can be passed along to consumers in the form of increased prices of finished products. It is more easily borne by consumers than higher prices for new cars because the single outlay for a new car is relatively great.

Many companies have diversification provided by serving other industries in the normal course of their business, or have distinct manufacturing lines exclusive of parts for the automobile industry. This angle of their positions has been touched upon before in the Magazine of Wall Street issues and is specifically mentioned in the thumbnail analyses of the companies presented in this issue.

Shares Appear Reasonably Priced

On the basis of annual earning power indicated by results in the last six (*Please turn to page* 177)





BORG-WARNER CORPORATION

BUSINESS: Organized over 19 years ago as a consolidation of several motor parts manufacturers, the company has through acquisitions subsequently broadened its activities on a large scale. By the latter method, and through its own initiative, diversification has been increased to include about 300 products. In 1946, business was distributed as follows: Automotive, 59.10%; household appliances, 20.16%; agricultural, 7.78% and the balance of 12.96% to miscellaneous and other industries. These various activities have become so important that for efficient operations 24 separate divisions have been established. Although war work comprised over 80% of the business and was widely different from peacetime work, conversion was accomplished with the use of only part of the conservative reserves charged against wartime earnings, and earning power was fully maintained. In 1946, Superior Sheet Steel Co. was acquired for $2,000,000, and a large manufacturing building of the machine shop type from the Defense Plants Corp. increased plants operated to 28.

OUTLOOK: Demand for automobile and farm equipment parts and the numerous household appliances should be lively for several years. Acquisition of the Superior mill will be of material help to Borg-Warner divisions using sheet steel. The critical shortage of steel sheets has been one of the most severe handicaps to an adequate volume of production of Norge refrigerators, washing machines, kitchen ranges, space heaters and house heating furnaces; also to the production of the Ingersoll utility units. Grouped on one side of the core of the latter unit, are the refrigerator, range, sink, insulated steel cabinets, lighting, and porcelain work counters. On the opposite side are complete bathroom fixtures, and on the third side, in the de luxe models, laundry equipment. Assembled with the unit are furnace, hot water heater, etc., all of which reduce the cost of utilities in small homes.

DIVIDENDS: Paid without interruption since 1928, extras in 7 of 8 prewar years and increased this year to $2 from $1.60 annually. At 42, the common stock yields 4¾%.

MARKET ACTION: Firm-corroborating investment standing of the stock.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1946 (000 omitted)	Change
ASSETS			
Cash	$10,044	$22,710	+$12,666
Marketable securities	7,057	6,853	— 204
Receivables, net	12,755	16,637	+ 3,882
Inventories	24,105	36,694	+ 12,589
TOTAL CURRENT ASSETS	53,961	82,894	+ 28,933
Plant and equipment	25,509	36,791	+ 11,282
Less depreciation	9,703	11,260	+ 1,557
Net property	15,806	25,531	+ 9,725
Other assets	2,838	5,560	+ 2,722
TOTAL ASSETS	72,605	113,985	+ 41,380
LIABILITIES			
Accounts payable and accruals	7,873	14,359	+ 6,486
Reserve for taxes	16,549	9,051	— 7,498
Other current liabilities	....	207	+ 207
TOTAL CURRENT LIABILITIES	24,422	23,617	— 805
Deferred liabilities	70	....	— 70
Reserves	3,348	5,188	+ 1,837
Capital	11,410	30,934	+ 19,524
Surplus	33,355	54,249	+ 20,894
TOTAL LIABILITIES	72,605	113,985	+ 41,380
WORKING CAPITAL	29,539	59,277	+ 29,738
CURRENT RATIO	2.2	3.5	+ 1.3

THE ELECTRIC AUTO-LITE CO.

BUSINESS: Leading manufacturer of lighting, starting and ignition equipment for motor vehicles and also boats; also produces bumpers, windshield wipers, storage batteries, instrument panels, lamps, spark plugs and other accessories. Directly or through subsidiaries, operates 25 plants in the U. S. and two in Canada. Has a strong trade position and wide dealer organization.

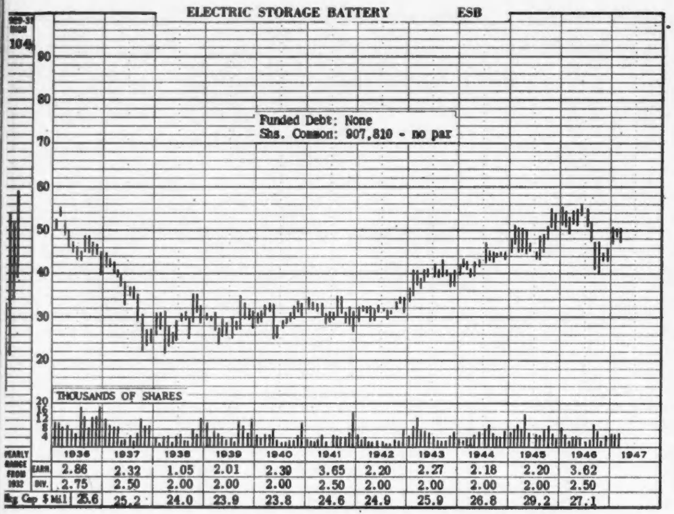
OUTLOOK: Sales in 1946 were divided 64.4% for original equipment, 27.8% for replacement and service, 5% Canadian and the small balance for export and industrial. In July, 1946 when rights were given to stockholders to subscribe to 298,971 shares of stock at $55.50 per share (24,484 unsubscribed shares purchased by underwriters), 33% of original equipment business was sold to Chrysler Corp. and the balance to several other companies, excluding General Motors. Proceeds of the financing of $16,195,000 were used to repay $10,000,000 bank loans, $2,800,000 V loan and the balance of $3,395,000 added to working capital. The latter increased to $37,396,000 at the end of 1946 from $19,951,000 in 1945. Sales last year set a peacetime record, and were only 1.3% below those of 1945 when war work was important. A sharp gain is expected this year in sales and also earnings, particularly because of the importance of replacement business. Prosperity of the company changes with the automobile business as diversification is not provided.

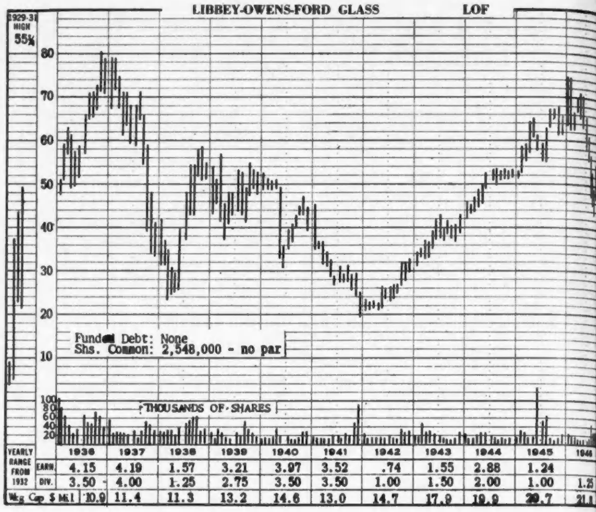
DIVIDENDS: The current indicated $3 annual rate may be supplemented by extras when earnings improvement materializes. At the recent price of 52⅛ the stock yields 5¾%.

MARKET ACTION: The stock fluctuates in a relatively wide price range. However, a good record and favorable trade position seem to assure substantial earnings. Over the longer term, cyclical fluctuations will be marked.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1946 (000 omitted)	Change
ASSETS			
Cash	$ 6,212	$10,147	+$ 3,935
Marketable securities	192	92	— 100
Receivables, net	9,040	13,832	+ 4,792
Inventories	14,664	28,135	+ 13,471
TOTAL CURRENT ASSETS	30,108	52,206	+ 22,098
Plant and equipment	27,254	45,158	+ 17,904
Less depreciation	11,770	18,715	+ 6,945
Net property	15,484	26,443	+ 10,959
Other assets	482	511	+ 29
TOTAL ASSETS	46,074	79,160	+ 33,086
LIABILITIES			
Accounts payable and accruals	4,040	9,425	+ 5,385
Reserve for taxes	8,932	5,385	— 3,547
TOTAL CURRENT LIABILITIES	12,972	14,810	+ 1,838
Minority interest	61	....	— 61
Short term debt	....	15,000	+ 15,000
Long term debt	7,600	....	— 7,600
Reserves	360	900	+ 540
Capital	5,663	7,475	+ 1,812
Surplus	19,418	40,975	+ 21,557
TOTAL LIABILITIES	46,074	79,160	+ 33,086
WORKING CAPITAL	17,136	37,396	+ 10,260
CURRENT RATIO	2.3	3.5	+ 1.2





THE ELECTRIC STORAGE BATTERY CO.

BUSINESS: Incorporated in 1888, the company has long been engaged in the manufacture of storage batteries marketed under the trade names, Exide, Willard and Grant, more than half used by the automobile trade and the balance for innumerable other purposes. Fourteen plants are located in this country, including the Joseph Stokes Rubber Co. (hard rubber), acquired in 1946, and two additional plants are under construction One plant is in Canada and that of the English subsidiary serves the British Isles.

OUTLOOK: During 1946, further progress was made in the policy of placing manufacturing facilities closer to the company's markets, including the program of building two new plants. During the first full peacetime year production of batteries was further curtailed than during the restrictions of the war period, resulting in no reduction in the backlog of unfilled orders. Financial strength is shown by the fact that cash and marketable securities are nearly twice current liabilities, despite the increase of about $3,300,000 in net property account last year. The company is endeavoring to settle the anti-trust suit out of court, and its case can be fairly and fully presented if it must ultimately be decided by the courts. The company has raised prices to offset higher cost of lead and antimony, and earnings in the first half of 1947 are expected to compare favorable with $1.69 earned in the same 1946 period.

DIVIDENDS: Has paid consecutive quarterly dividends for over 46 years; $2.50 was paid in 1946, or 50c per share more than in the preceding five years. The first 1947 quarter dividend indicates an unusual rate of $3. At the current price of 50, it yields 6%.

MARKET ACTION: Recent market action has been exceptionally firm. In past years the market in the stock has closely forecast earnings of the company. As examples, it was strong in 1935 and 1936; but declined sharply with the market in the latter part of 1937 and continued to sell at a low level for a good portion of 1938. The current firmness reflects the good dividend return and outlook.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1946 (000 omitted)	Change
ASSETS			
Cash	$ 4,944	$ 5,320	+$ 376
Marketable securities	7,283	6,295	— 988
Receivables, net	7,065	6,458	— 607
Inventories	11,432	14,404	+ 2,972
Other current assets	181	416	+ 235
TOTAL CURRENT ASSETS	30,905	32,893	+ 1,988
Plant and equipment	28,275	31,632	+ 3,357
Less depreciation	18,853	21,748	+ 2,895
Net property	9,422	9,884	+ 462
Other assets	2,018	3,657	+ 1,639
TOTAL ASSETS	42,345	46,434	+ 4,089
LIABILITIES			
Accounts payable and accruals	2,352	3,091	+ 739
Reserve for taxes	3,844	2,311	— 1,533
Other current liabilities	99	338	+ 239
TOTAL CURRENT LIABILITIES	6,295	5,740	— 555
Deferred liabilities	23	28	+ 5
Reserves	787	3,768	+ 2,981
Capital	23,516	23,516	....
Surplus	11,724	13,382	+ 1,658
TOTAL LIABILITIES	42,345	46,434	+ 4,089
WORKING CAPITAL	24,610	27,153	+ 2,543
CURRENT RATIO	4.9	5.7	+ .8

LIBBEY-OWENS-FORD GLASS CO.

BUSINESS: One of the principal suppliers of glass to the automotive and building industries, L.-O.-F. supplies General Motors with auto glass a relationship now in its 16th year. Owns and operates plants in close proximity to important sources of raw material, cheap fuel, and centers of distribution. Construction work in both glass and plastics divisions, begun in 1945 and continued in 1946, will be completed this year with the $5,000,000 expansion of the Plaskon Division.

OUTLOOK: Record production in 1946 was achieved under the handicap of serious material shortages throughout the year; and strikes in this company's plants and in those of customers and suppliers further complicated the manufacturing problem. By reason of the unprecedented demand, the production of plate, window, and replacement safety glass had to be apportioned equitably among customers. It sells glass products to independent distributors, automotive, mirror, sash and specialty manufacturers. In anticipation of a buyers' market reappearing, services of its market research department are made available to distributors to assist in analyses of market potentials. Plaskon resin glues are made for the furniture markets, and Paramet Corp. (a subsidiary) resins are used in the paint, lacquer and varnish industry. First 1947 quarter profits of $1.35 per share point to a marked gain for the full year. While the principal production of Liberty Mirror Division is rear view auto mirrors, long-term possibilities are represented by the know-how in production of mirrors for the television industry.

DIVIDENDS: In prewar years, dividends have been substantially larger than the current indicated $2 annual rate.

MARKET ACTION: The stock has fluctuated over a fairly wide range, and the recent price of 49¾, yielding 4%, appears reasonable in comparison with the range of 1945 and 1946.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1946 (000 omitted)	Change
ASSETS			
Cash	$ 5,112	$10,936	+$ 5,824
Receivables, net	2,590	4,414	+ 1,824
Inventories	8,141	13,766	+ 5,625
TOTAL CURRENT ASSETS	15,843	29,116	+ 13,273
Plant and equipment	50,879	64,002	+ 13,123
Less depreciation	34,777	41,733	+ 6,956
Net property	16,102	22,269	+ 6,167
Other assets	15,705	10,253	— 5,452
TOTAL ASSETS	47,650	61,638	+ 13,988
LIABILITIES			
Accounts payable and accruals	2,005	7,066	+ 5,061
Reserve for taxes	828	248(a)	— 580
TOTAL CURRENT LIABILITIES	2,833	7,314	+ 4,481
Reserves	3,545	5,148	+ 1,603
Capital	15,679	15,970	+ 291
Surplus	25,593	33,206	+ 4,613
TOTAL LIABILITIES	47,650	61,638	+ 13,988
WORKING CAPITAL	13,010	21,802	+ 8,792
CURRENT RATIO	5.6	4.0	— 1.6

(a)—After deducting $3.5 million U. S. Tax Notes

Keeping Abreast of Industrial and Company News

Almost in a continuous stream, the announcements of new wage scales strengthen hopes for uninterrupted production during the balance of 1947. With the steel, automotive and electrical supply segments of the economy practically assured of labor peace, there is a chance that others will soon follow.

Whether or not this courageous experiment will prove wise in the long run only time can determine. Economists, managements and politicians vary widely in their opinions on this score. That results will vary, too, seems likely. In some directions price boosts have already been announced but in others the line will be held to see what full production can accomplish.

One large concern, at least, General Cable Corporation, has taken the bull by the horns by granting higher wages and at the same time announcing a substantial cut in the prices for its products. As for many years past no dividends have been paid on its common shares, this concern's new program will be watched with intense interest by students of business.

International Harvester Co., too, has followed up its recently announced substantial price cuts with a wage and salary rise for all classes of its employees. Nine unions were involved in the negotiations of this giant concern, representing more than 65,000 employees. Company costs will be expended to the extent of about $25 million per annum as result of the settlement.

In announcing its assent to an advanced wage scale, Bethlehem Steel Company pointed out that the move would probably preclude any opportunity to lower prices in the near term and that the wage rise prevalent in industry might prove to be not economically sound.

Eyes of many distributors are turned Eastward to analyze the Newburyport Plan in Massachusetts. Enthusiastic sponsors of this town wide plan to cut all prices by 10% are gleeful over the 65% increase in sales it produced. But now they are faced with replacement problems which may dampen their spirits considerably. They have been obliged to pass the ball to manufacturers, as might have been expected.

The Association of American Railroads reports that during the first 13 weeks of 1947, carloadings of freight totalled 10,518,015, the highest figure in 17 years for a comparable period. And the feat was achieved with half a million fewer cars than were available in 1930. This attests to a great advance in managerial efficiency.

During the next four years experts in the oil industry predict a 16% increase in world demand for oil, excluding Russia. Better yet, there is sound reason to suppose that a prospective demand for 8.35 million barrels per day will be met if expansion plans of the industry become realistic as expected.

Among a number of roads achieving major success in carloading, an outstanding example was Chesapeake and Ohio. On April 24 C & O shattered all existing daily coal loading records by filling 5,736 cars with this essential fuel. For a

single days effort, this merits high commendation.

The outlook for the entire field of organic chemistry has been brightened by Westinghouse Electric Corporation through development of a new photochemical "Alladin's Lamp". This 55 inch long tube emits invisible and visible rays generated from mercury vapor and is claimed to be the most powerful and economical ever devised for rearranging chemical particles.

Although dividend rates paid to holders of life insurance policies last year declined total amounts distributed rose by $37 million for a new high of $502 million. It is interesting to note that recipients left 23% of these dividends, or $117 million, with the companies to earn interest until called for. In all, the Nation's policy holders now have $953 million left with the companies in this manner.

Judging by the experience of New York State savings banks, which hold 55% of all deposits in their field in the Nation, new records are being established. For the first time in history the number of savings depositors in New York has topped 7 million and their bank books show a balance of $9.3 billion to their credit, an all time high.

The chemical industry is making strides to meet the insatiable and world wide demand for streptomycin, the miracle product of wartime research. Although the Government is still allocating distribution of this drug, if new plants are finished on schedule, production should soar to 1 million grams per month by January 1, 1948.

In the event of a business recession, Lewis H. Brown, chairman of Johns-Manville Corporation tells his stockholders that the building industry should fare better than some other industries. This concern reports production at record levels and has a big backlog of orders on its books.

In honoring eighteen brand names known for 50 years or more, the Brand Names Foundation had to assign special mention to "Revere", the identification for products of Revere Copper and Brass, Inc. It has an unbroken record of public service since it was founded in 1801 by Paul Revere.

In view of conditions in China it is interesting to hear that the National City Bank of New York has arranged with the Central Bank of China to finance the delivery of about 230,000 bales of cotton by United States suppliers. Estimated value of the shipment will come to around $40 million. The National City Bank will discount bills for U. S. exporters at the other end.

Householders are applauding the general price cuts for soap announced by the leading producers. Along with Procter and Gamble and Colgate-Palmolive-Peet, Lever Brothers Company has been quick to respond to President Truman's appeal for lower prices by announcing a 10% cut on all major soap products.

In view of mounting expenses during last year, Consolidated Edison Company of New York, Inc. did pretty well last year in reporting consolidated net earnings of $1.93 per share, a dip of only 11 cents per share from the previous year. Total revenues were up by some $16 million but deductions were slightly larger.

Increased demand for consumer credit is reflected by the uptrend in earnings reported by Commercial Credit Company. During the first quarter of 1947 net of this concern rose to $1,441,261 compared with about $798,000 in the same period of 1946, or almost double the latter showing.

The BUSINESS ANALYST

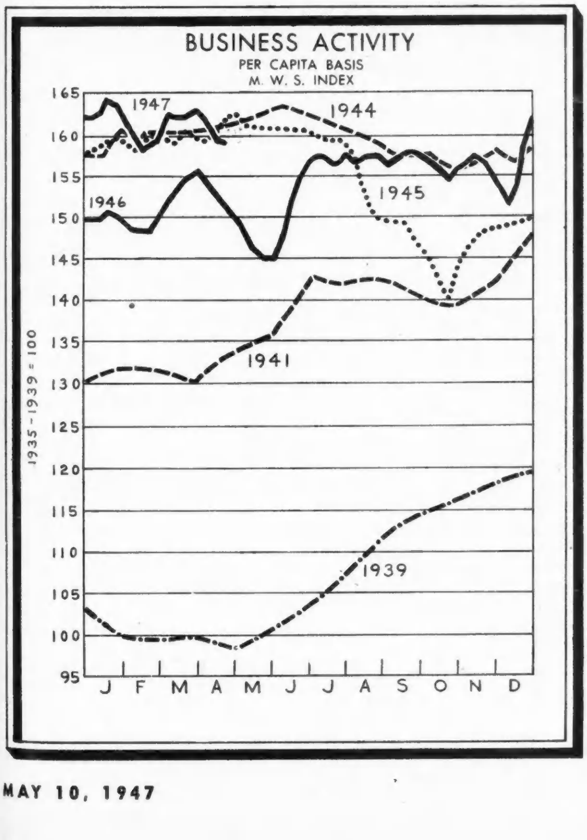
SUMMARY

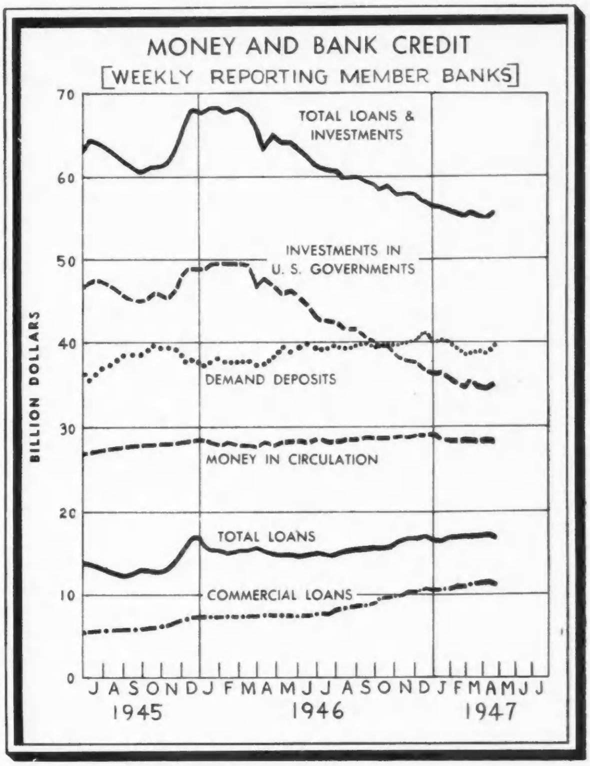
MONEY AND CREDIT—President Truman now estimates a budget surplus of $1 1/4 billion for current fiscal year, explaining that earlier "guestimates" were based upon a slump in national income that has not yet materialized. Latest estimate improves outlook for tax reduction and further debt retirement this year.

TRADE—Department store sales in post-Easter fortnight this year were 6% below the corresponding pre-Easter fortnight of last year. Some stores report that the drop was less than expected. Ensuing fortnight, in comparison with corresponding post-Easter fortnight last year, should show marked improvement.

INDUSTRY—Business activity receded about 2% during fortnight ended April 19, to a level slightly better than last year at this time. Most of the contraction was due to the coal miners' walk-out; though bank debits, crude runs to stills and paperboard production also declined somewhat more than seasonally.

COMMODITIES—Futures declined sharply during past fortnight, with M. W. S. index of raw materials spot prices showing a fractional loss. Wheat fairly steady; but cotton and corn down, on fortnight. Export demand for wheat remains heavy as reserves dwindle.





Business Activity declined about 2% during the fortnight ended April 19, to a level slightly better than 7% above last year at this time. Most of the recession was due to the coal miners' walk-out; though bank debits, crude runs to stills and paperboard production were also off somewhat more than seasonally.

* * *

Construction contracts awarded during March in 37 states east of the Rockies were 15% below last year in value and 25% in number. Principal reason for the decline is an average increase of 37% in construction costs during the 12-months' interval. Awards for the full first quarter, however, reached a new high of $1.6 billion.

* * *

The Commerce Department reports that, owing to severe winter weather and high prices, 7% fewer new permanent **Dwellings** were begun in the first quarter than a year ago. Completions, however, were up 150%.

* * *

New orders for **Paperboard** booked during March were fractionally smaller than a year earlier. This, along with other recent developments, would seem to indicate that the long-heralded business recession may have set in. The cause is buyer resistance to high prices, intensified by President Truman's warnings. Price reductions have started all down the line; but we do not believe this will develop into a severe, or long-lasting, slump. Profits could be shaved con-

(Please turn to following page)

Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURE (tf) $b	Apr. 23	0.39	0.39	0.50	0.43
Cumulative from Mid-1940	Apr. 23	353.2	352.8	333.8	14.3
FEDERAL GROSS DEBT—$b	Apr. 23	257.7	257.9	273.8	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Apr. 23	39.5	39.2	38.1	24.3
Currency in Circulation	Apr. 23	28.1	28.2	27.9	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Apr. 23	7.03	7.06	7.27	3.92
100 Other Cities—$b	Apr. 23	9.55	9.56	8.02	5.57
INCOME PAYMENTS—$b (cd)	Feb.	13.40	14.40	12.07	8.11
Salaries & Wages (cd)	Feb.	9.13	9.13	8.04	5.56
Interest & Dividends (cd)	Feb.	0.56	1.22	0.52	0.55
Farm Marketing Income (ag)	Feb.	1.66	2.14	1.38	1.21
Includ'g Govt. Payments (ag)	Feb.	1.70	2.18	1.45	1.28
CIVILIAN EMPLOYMENT (cb) m	Mar.	56.1	55.5	52.5	52.6
Agricultural Employment (cb)	Mar.	7.2	6.9	7.5	8.9
Employees, Manufacturing (lb)	Feb.	15.1	15.0	12.5	13.8
Employees, Government (lb)	Feb.	5.2	5.2	5.5	4.6
UNEMPLOYMENT (cb) m	Mar.	2.3	2.5	2.7	3.4
FACTORY EMPLOYMENT (lb4)	Feb.	151	150	122	147
Durable Goods	Feb.	175	173	123	175
Non-Durable Goods	Feb.	131	131	121	123
FACTORY PAYROLLS (lb4)	Feb.	311	307	214	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Feb.	40.2	40.5	40.5	40.3
Hourly Wage (cents)	Feb.	116.5	115.8	100.2	78.1
Weekly Wage ($)	Feb.	46.79	46.94	40.58	31.79
PRICES—Wholesale (lb2)	Apr. 19	147.2	148.1	109.6	92.2
Retail (cdlb)	Feb.	172.7	172.7	142.7	116.2
COST OF LIVING (lb3)	Feb.	152.8	153.1	129.6	110.2
Food	Feb.	182.3	183.8	139.6	113.1
Clothing	Feb.	180.2	178.3	150.5	113.8
Rent	Feb.	108.9	108.8	108.3	107.8
RETAIL TRADE $b					
Retail Store Sales (cd)	Feb.	7.38	7.84	6.43	4.72
Durable Goods	Feb.	1.54	1.62	1.06	1.14
Non-Durable Goods	Feb.	5.84	6.22	5.37	3.58
Dep't Store Sales (mrb)	Feb.	0.58	0.58	0.54	0.40
Retail Sales Credit, End Mo. (rb2)	Feb.	4.20	4.33	2.57	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Feb.	255	242	186	181
Durable Goods	Feb.	293	270	179	221
Non-Durable Goods	Feb.	232	225	189	157
Shipments (cd2)—Total	Feb.	292	275	183	184
Durable Goods	Feb.	314	293	153	223
Non-Durable Goods	Feb.	277	263	204	158
BUSINESS INVENTORIES, End Mo.					
Total (cd)—$b	Feb.	37.0	35.9	27.1	26.7
Manufacturers'	Feb.	21.0	20.7	16.6	15.2
Wholesalers'	Feb.	6.5	6.3	4.3	4.3
Retailers'	Feb.	9.5	8.9	6.2	7.2
Dept. Store Stocks (mrb)	Feb.	2.0	1.9	1.2	1.4

PRESENT POSITION AND OUTLOOK

(Continued from page 173)

siderably and remain fairly reasonable as a whole. Large inventory reserves would absorb most of any conceivable inventory losses.

* * *

On the other hand, the drop in demand for **Textiles** at the manufacturer's level appears to have been transient. According to Associated Industries of Massachusetts, new orders booked by manufacturers in the Bay State for textiles during March, after dropping well below last year during February, rebounded in March to 28% above the like month of 1946. The Cotton Textile Institute reports that the industry operated at 94% of capacity during the first quarter of 1947, compared with only 63% in 1939.

* * *

According to the Census Bureau, total civilian **Employment** up to the second week of March had not been hurt by the shift in consumer demand from soft to hard goods; though the Commerce Department finds that employment in the food and service industries during February was a little lower than for the like month last year.

* * *

Department Store Sales in the post-Easter fortnight this year were 6% below the corresponding pre-Easter fortnight of last year. Some stores report that the drop was less than expected. The ensuing fortnight, in comparison with the corresponding post-Easter fortnight last year, should show marked improvement. In fact preliminary estimates indicate an 8% gain over last year for New York stores during the week ended April 26.

* * *

It is unfortunate to put it mildly, that President Truman has deemed it politically expedient to play into the hands of the C. I. O. and other leftists by implying that large profits are mainly responsible for **High Prices.**

* * *

The Commerce Department reports that corporate **Profits** in the first quarter, after taxes, were at an annual rate of $15 billion. The C. I. O. says they will total $17 billion for the calendar year, which they certainly will not if production and foreign trade are again crippled and costs boosted by prolonged strikes in the coal and shipping industries.

* * *

Corporate profits last year totaled $12 billion after taxes; yet the **Profit Margin** per dollar of sales averaged only 6 cents for manufactures and 4½ cents for the wholesale and retail trade. The corresponding margins for the prosperous pre-war

Production and Transportation

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	Apr. 19	159.4	159.8	150.8	141.8
(M. W. S.)—I—np	Apr. 19	176.3	176.8	164.0	146.5
INDUSTRIAL PROD. (rb)—I—np	Mar.	189	189	168	174
Mining	Mar.	147	146	137	133
Durable Goods, Mfr.	Mar.	223	222	183	215
Non-Durable Goods, Mfr.	Mar.	175	176	166	141
CARLOADINGS—t—Total	Apr. 19	866	758	651	833
Manufactures & Miscellaneous	Apr. 19	383	377	381	379
Mdse. L. C. L.	Apr. 19	126	126	128	156
Grain	Apr. 19	48	46	34	43
ELEC. POWER Output (Kw.H.)m	Apr. 19	4,660	4,620	3,987	3,267
SOFT COAL, Prod. (st) m	Apr. 19	12.6	7.1	0.8	10.8
Cumulative from Jan. 1	Apr. 19	187	174	164	446
Stocks, End Mo.	Feb.	49.5	49.2	51.2	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Apr. 19	4.9	4.9	4.7	4.1
Gasoline Stocks	Apr. 19	106	106	101	88
Fuel Oil Stocks	Apr. 19	43	43	37	94
Heating Oil Stocks	Apr. 19	31	32	31	55
LUMBER, Prod. (bd. ft.) m	Apr. 19	459	447	444	632
Stocks, End Mo. (bd. ft.) b	Feb.	4.3	4.3	3.5	12.6
STEEL INGOT PROD. (st.) m	Mar.	7.28	6.42	6.51	6.96
Cumulative from Jan. 1	Mar.	20.9	13.6	11.8	74.7
ENGINEERING CONSTRUCTION AWARDS (en) $m	Apr. 24	88	110	132	94
Cumulative from Jan. 1	Apr. 24	1,642	1,554	1,521	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Apr. 19	171	139	144	165
U. S. Newsprint Consumption (st)t	Mar.	415	354	367	352
Do., Stocks (mpt) End Mo.	Mar.	401	429	384	523
Wood Pulp Stocks, End Mo. (st)t	Feb.	74.4	74.9	74.3	98.5
Whiskey Production (tax gals.)m	Feb.	21.5	24.6	15.0	11.8
Do., Domestic Sales	Feb.	4.6	6.0	5.4	8.1

PRESENT POSITION AND OUTLOOK

year, 1936, were, respectively, 7.6% and 4.8%. The present greater dollar total for profits is thus due to larger volume rather than bigger mark-ups. Stated otherwise, profits accounted for only 6% of the national gross product last year, against 8% in the boom year, 1929.

* * *

Should corporate profits be cut in half, the resulting **Reduction in Prices** would not be much more than 6%—say, 5 cents on a pound of beefsteak. The facts are that 5/6th of the rise in living costs last year was caused by the Government-bolstered advance in farm products prices and most of the remaining 1/6th by Government-encouraged wage increases.

* * *

President Gwilym A. Price of the Westinghouse Electric Co., in an address read recently before the Chamber of Commerce at Hamilton, Ontario, Canada, declared that a recent survey in the United States revealed that about one-third of the population believe they would get more for their money if all businesses were owned and operated by the Government. That means, he commented, that about one-third of our population "has swallowed the Communist party line and doesn't know it. . . . Instead of blaming the **Profit Motive,** we should give it credit for most of the good things all of us enjoy today. . . . Business should apologize only when it fails to earn profits—not when it succeeds."

ag—Agriculture Dep't. b—Billions. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't. Avge. Month 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonably adjusted Index. 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and In Transit. mrb—Magazine of Wall Street, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

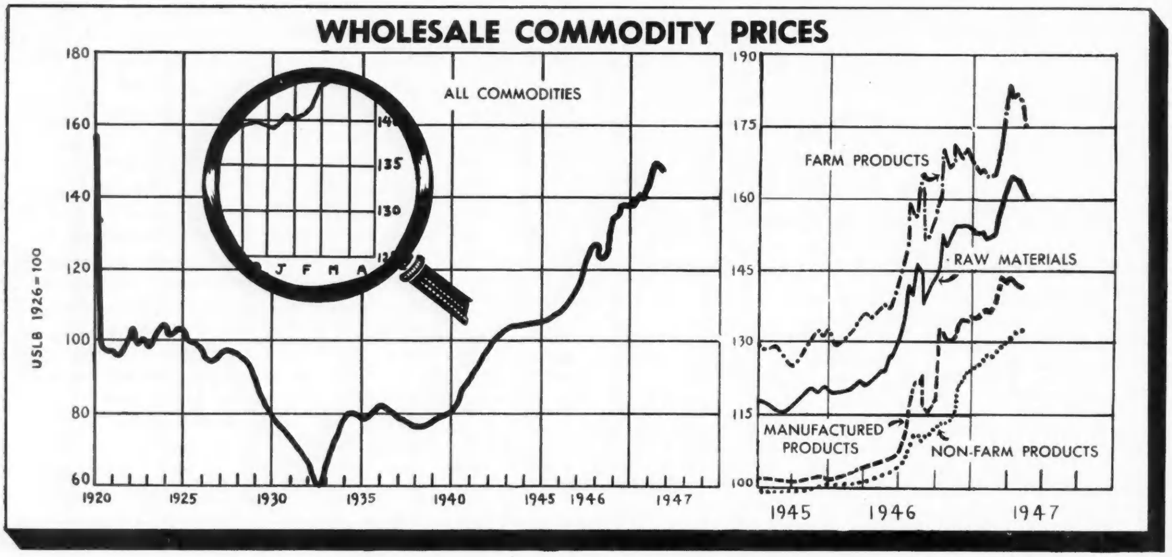
No. of Issues (1925 Close—100)	1947 Indexes High	Low	Apr. 19	Apr. 26
304 COMBINED AVERAGE	148.8	123.2	123.6	123.2b
4 Agricultural Implements	188.0	157.9	158.9	157.9a
11 Aircraft (1927 Cl.—100)	167.1	135.6	136.5	135.6c
6 Air Lines (1934 Cl.—100)	636.9	545.7	591.9	589.0
6 Amusement	146.0	115.5	118.5	115.5b
14 Automobile Accessories	237.4	183.7	184.7	183.7a
11 Automobiles	42.8	34.2	34.3	34.2a
3 Baking (1926 Cl.—100)	24.1	20.4	20.7	20.4a
3 Business Machines	301.6	252.6	252.8	252.6b
2 Bus Lines (1926 Cl.—100)	175.0	134.7	134.7b	140.6
4 Chemicals	245.6	229.4	229.4a	232.5
2 Coal Mining	20.1	15.7	16.0	15.7c
4 Communication	58.3	45.7	45.8	45.7d
13 Construction	66.5	54.4	54.6	54.4b
7 Containers	371.5	310.7	310.7b	314.5
8 Copper & Brass	113.9	102.3	103.5	102.3a
2 Dairy Products	69.7	57.2	57.4	57.7
5 Department Stores	78.6	61.8	62.3	61.8b
5 Drugs & Toilet Articles	223.2	174.8	178.6	174.8b
2 Finance Companies	255.8	213.7	213.7a	213.7
7 Food Brands	190.4	163.9	164.6	163.9b
2 Food Stores	73.3	65.6	67.4	65.6b
3 Furniture	93.9	75.0	75.0c	75.8
3 Gold Mining	882.7	739.2	740.7	739.2d

(Nov. 14, 1936, Cl.—100)	High	Low	Apr. 19	Apr. 26
100 HIGH PRICED STOCKS	89.87	77.08	77.57	77.08b
100 LOW PRICED STOCKS	183.14	143.81	143.89	143.81b
6 Investment Trusts	62.8	52.3	52.9	52.3b
3 Liquor (1927 Cl.—100)	933.6	670.4	670.4b	672.2
8 Machinery	159.4	132.4	132.4a	133.4
3 Mail Order	129.5	94.8	97.4	94.8c
3 Meat Packing	108.7	91.8	92.6	91.8b
13 Metals, non-Ferrous	196.7	154.5	154.5b	156.5
3 Paper	39.6	33.4	34.6	33.4a
23 Petroleum	191.0	176.1	176.1a	179.2
20 Public Utilities	134.3	112.8	112.8a	113.1
5 Radio (1927 Cl.—100)	23.2	17.5	17.8	17.5d
8 Railroad Equipment	80.6	64.1	65.4	64.1a
23 Railroads	27.2	19.8	20.0	19.8c
3 Realty	32.0	25.6	25.9	26.7
2 Shipbuilding	114.4	98.8	100.5	98.8b
3 Soft Drinks	559.0	473.6	482.7	473.6a
13 Steel & Iron	121.1	101.3	101.6	101.3b
3 Sugar	68.2	57.7	57.7b	58.1
2 Sulphur	253.8	220.3	228.5	220.3b
3 Textiles	128.5	103.0	103.0b	103.6
3 Tires & Rubber	41.4	32.8	33.6	32.8c
6 Tobacco	87.4	68.4	69.5	68.4b
2 Variety Stores	342.5	307.1	308.9	307.1a
19 Unclassified (1946 Cl.—100)	108.5	90.5	91.0	90.5a

New LOW since: a—1946; b—1945; c—1944; d—1943.

Trend of Commodities

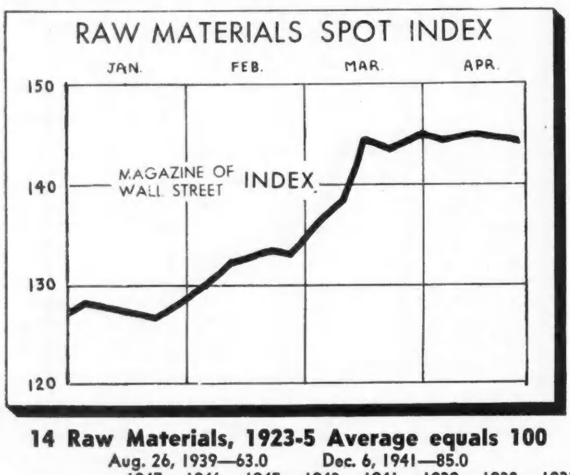
Reminiscent of pre-New Deal days when farmers complained that speculators habitually drove prices down when new crops were coming to market, and then pushed them up after crops were marketed, it may be noted that futures sold off rather sharply toward the close of April this year. It is, of course, quite natural for prices to recede under the impact of a current or prospective increase in supply and then to rise later in the crop year when the volume of products coming to market tapers off. Speculators are often the scape goat for the inexorable working of the law of supply and demand. The M. W. S. index of spot commodity prices was off only fractionally on the fortnight; since only a few of its 14 components are of the more volatile type. The present largely seasonal decline in farm products prices should not be construed as foreshadowing a disastrous collapse such as occurred in 1932. Foreign demand and Government support will prevent anything approaching a panicky slump. Neither are farmers faced now with a disastrous drop in profits such as that which impoverished them in the early '30s. Farm mortgage obligations are much smaller now than in 1929, and production efficiency has increased phenomenally in the past 20 years, despite (or spurred by) the large advance in wages paid to hired labor. Compared with early years after World War I, a farmer now gets half again as much corn for one hour of work, a third more milk and two and a half times as much wheat. Still more improvement is expected in the years just ahead.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equal 100

	Date Apr.26	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	309.9	326.0	336.0	303.1	261.8	190.2	156.9
11 Import Commodities	285.9	289.6	290.9	287.3	239.9	170.7	157.5
17 Domestic Commodities	326.6	351.9	368.8	313.8	277.1	203.9	156.6

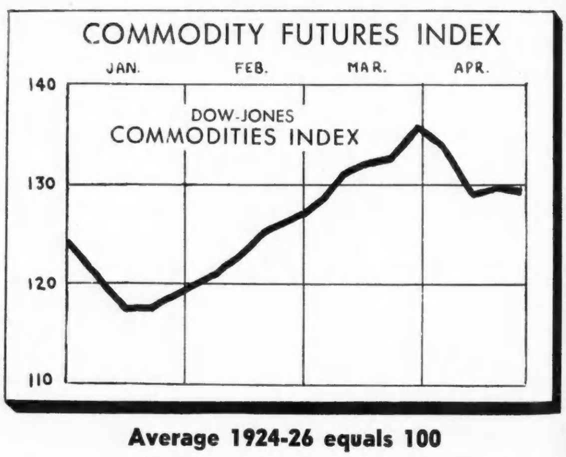
	Date Apr.26	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec.6 1941
7 Domestic Agriculture	337.1	342.0	356.0	301.3	316.7	239.3	163.9
12 Foodstuffs	365.1	398.3	417.6	358.4	345.0	216.3	169.2
16 Raw Industrials	273.9	280.2	286.1	267.1	212.7	172.4	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1947	1946	1945	1943	1941	1939	1938	1937
High	144.9	128.8	95.8	92.9	85.7	78.3	65.8	93.8
Low	126.4	95.8	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1947	1946	1945	1943	1941	1939	1938	1937
High	136.55	127.07	106.41	96.57	84.60	64.67	54.95	82.44
Low	117.14	104.21	93.90	88.45	55.45	46.59	45.03	52.03

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Heyden Chemical Corporation

As you did not include statistical data and comment on Heyden Chemical Corporation in your article on the chemical industry in the April 12th issue, I would appreciate some information on this company.

B.A., Chicago, Ill.

The reason we did not include Heyden Chemical Corporation in our article on the "Chemical Industry" in our April 12th issue, was that this corporation's annual report had not been issued by the time we went to press.

Consolidated net earnings of Heyden Chemical Corporation for fiscal year ended December 31, 1946 amounted to $2,416,523, equal to $1.80 a common share, compared with $1,403,342 or $1.03 a share, earned in 1945. Earnings before taxes, declined to $3,994,-023 from $4,318,842 in 1945.

Dividends are currently on a 25 cents quarterly rate.

Despite a shortage of raw materials caused by suppliers' strikes and transportation tie-ups, which sometimes prevented capacity operation of Heyden's eight chemical and pharmaceutical plants, sales reached $18,857,589 in 1946, the highest in company's history. This is an increase of $1,701,841 over 1945 and marks the eighth consecutive yearly sales increase.

Current assets as of December 31, 1946 amounted to $8,024,539 and current liabilities, $2,978,101 leaving net working capital of $5,046,438.

Capitalization consists of 90,000 shares of 3½% Series A cumulative preferred and 1,181,896 shares of common stock outstanding.

Heyden manufactures synthetic organic chemicals for industrial and medicinal uses. Among new products introduced in 1946 by company, was white crystalline penicillin, which requires no refrigeration.

Confused Investor Seeks Clarification

I am enclosing check for subscription to your magazine.

I must confess that this market has made me groggy since last July, for no matter what I buy, it seems like I cannot find the bottom. I have around 1500 shares of different stocks that I put much of my real estate profits in. Stock brokerage houses seem to be able to tell a person very little—only look sad after another big drop.

Cannot figure out how stocks can drop $25 or $30 Billion and everything else goes up—especially when they are way below 1929 prices with large backlogs of unfilled orders and easy money times.

Thanks for a little information for another dizzy investor.

C.D., Miami, Fla.

The aftermath of war, far from providing the hoped-for return to normal peacetime conditions, has been characterized by an atmosphere of confusion and uncertainty which has served only to obscure further the facts necessary to intelligent investment.

The stock market always looks ahead and for some months it has foreshadowed a business recession. The uncertain foreign situation and the maladjustments in our domestic economy have been the principal reasons for the market decline. Strikes and shortages of materials have held up production. Prices of many products have increased sharply the past year or so and the millions of people in the white collar class, unorganized labor, and fixed income groups, have suffered a decrease in their purchasing power. With expanded production built up during the war years and full production now achieved, price distortions must be corrected and purchasing power restored before general business can reach healthy proportions. There is plenty of business available at reasonably lower price levels.

We advise maintaining adequate cash reserves and confining security investments to a diversified list of sound, good dividend paying companies in basic industries with favorable long term growth prospects.

We suggest you be guided on market outlook by the articles appearing regularly in our magazine by A. T. Miller.

Novadel-Agene Corporation

Will you kindly give me information you have available on Novadel-Agene? What is the outlook for earnings? Is dividend safe? How long have they paid dividends?

M.I., Trenton, N. J.

The Novadel-Agene Corporation is engaged in the market of patented processes for the bleaching, maturing and aging of wheat flour extensively used by the millers in the U. S. and Canada. Apparatus and materials for these processes are manufactured by others, one of them (The Lucidol Corporation) a wholly owned subsidiary. The company's stock consists solely of 470,218 (no par) common shares outstanding and is listed on the N. Y. Curb Exchange and some of its stock certificates are listed on the Amsterdam, Holland Stock Exchange, a reflection of the fact that the Novadel process was originally acquired from a Dutch concern. A new product N-Richment-A was introduced by the company a few years ago, used for

(*Please turn to page* 178)

Standard Oil Company

Some highlights from the Annual Report for 1946, which has just been issued

The conduct of business and the welfare of people in general are closely related here in the United States. That is why we publish the following summary of this company's annual report to its 164,000 stockholders. Put as briefly as possible, here are the year's developments in our work which are of the broadest public interest.

EUGENE HOLMAN
PRESIDENT

FRANK W. ABRAMS
CHAIRMAN OF THE BOARD

THE WORLD'S NEED FOR OIL in the postwar period is developing even more rapidly than was expected. Not only in the U.S. but world-wide, demand for oil products in 1946 was the largest in history, exceeding even the war years' period. The pressure of demand is being felt in all lines of the business.

AFFILIATES OF THE COMPANY are now operating practically at maximum capacity—a situation prevailing throughout the industry. Needed increases in output can be achieved only by enlarging every operation from well to market. In financing these activities, capital expenditure in 1946 reached the record figure of $279,000,000. The budget for 1947 provides for further increases. Construction of needed new facilities is one of the industry's major tasks for the immediate future.

NET EARNINGS accruing to the interest of Jersey shareholders represent a return of 11.12% on average net worth, or 10.80% on total income of the Company and its affiliates. Such consolidated earnings for 1946 came to $6.50 per share of outstanding stock, a total of $177,610,000. Net income for the parent Company was $3.83 per share, a total of $104,770,000. Dividends of $3.00 per share were paid by the Company during 1946.

OF TOTAL MONEY TAKEN IN from all sources by the Company and its affiliates, 64% was paid out for crude oil, other materials and supplies, maintenance, direct taxes, and similar necessary expenses.

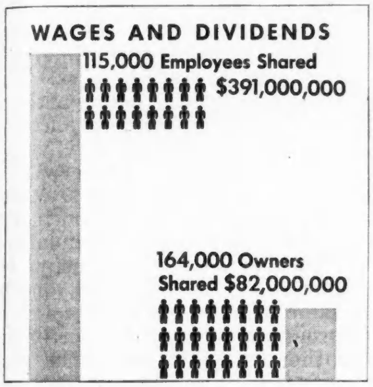
36% REMAINED after these expenses. Of this remainder, 65% was paid to 115,000 employees, 13% went as dividends to the Company's stockholders, 16% was held for use in the business, and 6% was the amount applicable to minority ownership of subsidiary companies.

INCREASED PRODUCTION AND SALES reflected the world's growing need for oil and its products. World-wide production of crude oil by Jersey affiliates increased 9.6% over 1945. Working at or near capacity, refineries of Jersey affiliates processed 7% more oil than in 1945—producing 9% of total U.S. petroleum products. Sales by affiliates also reflected rising need for oil. With relaxation of rationing, there has been increased use of oil products not only in this country but also in most of the foreign countries served by Jersey affiliates.

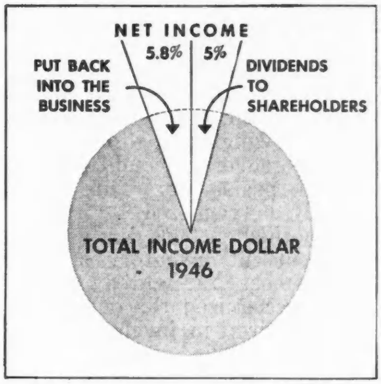
19 OCEAN TANKERS were purchased in 1946, in replacing tankers lost during the war. To promote greater safety at sea, three of our ships have now been equipped with radar and two more are being so equipped.

RESEARCH WORK during the year moved ahead, developing better and more versatile processes and products. Special attention was given to develop-

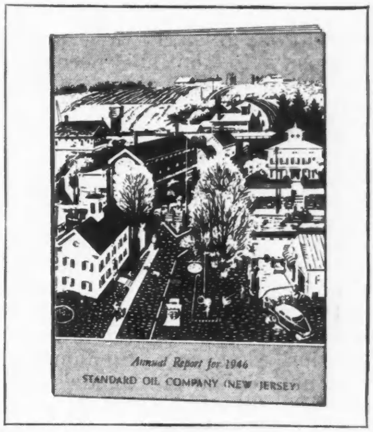
(New Jersey) reports...



EACH FIGURE REPRESENTS 6,975 PERSONS, and the bars represent the amounts of income each group received from Jersey in 1946. The sum of $391,000,000 was paid to employees of the Company and affiliates in wages, salaries and benefits. Dividends amounted to $82,000,000.



THIS SHOWS THE AMOUNT OF NET INCOME accruing to the interest of Jersey shareholders during 1946. It shows also the proportion paid to these shareholders in dividends and that left in the business to meet future capital expenditures, etc.

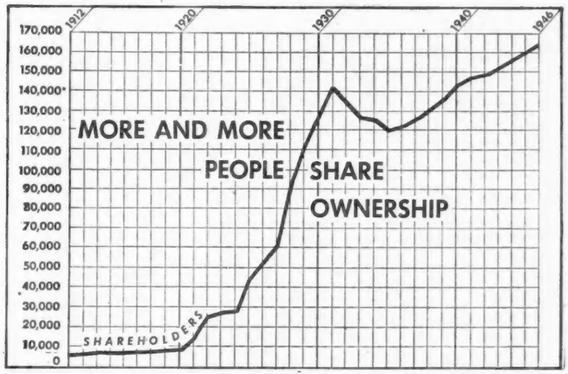


COPIES OF THE FULL REPORT are available on request. Address Room 1626, 30 Rockefeller Plaza, New York 20, N. Y.

ment of high octane gasolines to anticipate the requirements of coming higher compression automobile engines—giving greater power and increased miles per gallon. Semi-commercial conversion of both natural gas and coal into oil products has shown encouraging progress.

GOOD LABOR-MANAGEMENT RELATIONS during the year continued the Company's long record of industrial peace. There was no domestic strike or work stoppage during the year. 88% of former employees discharged from the armed services have returned to work for the Company. In addition, 11,577 veterans were newly employed by the Company. More than 78% of eligible domestic employees participated in the Group Insurance Program. Employees saved $17,615,000 in the Thrift Plan last year, to which their employers added $30,329,000.

LOOKING AHEAD, it is clear that if men, through science and machines, are to drive persistently toward better living standards for all people, vast quantities of oil must be found, brought to the surface, refined, and distributed to all parts of the



WIDENING OWNERSHIP OF NEW JERSEY is shown by the fact that the number of shareholder accounts has increased from 5,816 in 1912 to 164,000 as of December 31, 1946.

world. Standard Oil Company (New Jersey) is increasing substantially its activities and investments abroad as well as in this country. These are practical demonstrations of our confidence that American enterprise can help meet the needs of people everywhere and thereby serve the cause of lasting peace.

STANDARD OIL COMPANY (NEW JERSEY)

AND AFFILIATED COMPANIES

Canada Feels Impact of World Insecurity

(Continued from page 151)

month was a 10 per cent increase in rents.

Except for the farmers, who are showing increasing dissatisfaction with the price control and price stabilization policies, the public seems still to be against any precipitate abandonment of the remaining price controls. The Parliament has given the Government authority to continue necessary controls up to the middle of May, and under the so-called Omnibus Bill this authority will probably be extended beyond that date.

Canadian Economy is Sound

It may be worth while to emphasize, in conclusion, that the discount in the free market for Canadian dollars and the strain in the Dominion's balance of payments with this country is no indication that any fundamental weakness exists in Canada's economic or financial position; it remains basically as sound as before. But the discount and the balance of payments difficulties are indications of the still unsatisfactory state of international economy which is under pressure because of deteriorating international political outlook. The world-wide insecurity is more clearly reflected in Canada's position than in our own, simply because the Dominion is far more dependent upon foreign trade — over one-third of her national income, it is estimated, being derived from it.

For Profit and Income

(Continued from page 163)

immune in the event of further general market decline. The company is paying 50 cents quarterly, and already has paid a 50-cent extra this year, indicating not less than $2.50 for 1947 against the long familiar $2.40 prewar rate. On that basis the yield at 45 is 5.5%. The lowest the stock sold in the major 1937-1938 bear market was 36; the highest it sold was 71 in 1936 (not counting 103⅞ in 1929). Any further decline in the present instance figures to be moderate.

Good Yield

Business recession, whatever it amounts to, will hardly hurt the small loan business. If you want a good yield in a stock which usually is subject to quite subdued fluctuation, either way, in any kind of market, we refer you to Beneficial Industrial Loan. The dividend this year will not be less than $1.50. The yield at current price is slightly over 6%.

Advantages and Hazards in Today's Corporate Inventories

(Continued from page 148)

approved by the Federal Tax authorities. As a common sense method of attuning inventory values to a changing price structure, in contrast to the former practice of piling up profits in good times and allowing them to shrink fast under adverse conditions, too much praise for "life" could hardly be rendered.

Another encouraging aspect of the current inventory status is that most farsighted concerns have recognized the danger of a sudden drop in inventory values by setting up sizable reserves against such a contingency. Both Sears Roebuck and Montgomery Ward, for example, have accumulated more than $25 million for this purpose and undoubtedly will continue to build up these funds by making additional deductions from reported income. Most of the large retailers, too, have adopted a similar policy of conservatism, and if worse comes to worse these reserves will provide a valuable cushion against potential inventory losses. Hard headed manufacturers and distributors of every kind who benefitted from last year's bonanza were alert to set aside sums to build up their fences against a possible future shrinkage in inventory values. While it is true that if public buying should decline on a discouraging scale or prices recede with the speed recorded after World War I, these reserves might not prove adequate, they assuredly lend warantable confidence in the current picture.

Since most business concerns rely upon borrowing to a considerable extent to carry inventories, bankers constitute a strong check upon unwise accumulations of goods. In view of this it is perhaps a healthy sign that the impressive uptrend in business loans characteristic of late last fall now appears to be undergoing a modest reversal. In view of the uncertainties ahead and past experience in boom times, bankers are already displaying caution in granting credits until the situation stabilizes. As a matter of fact, bankers in some instances have forced liquidation of excessive inventories to protect their loans. It is also interesting to note that department store outstanding orders for the country as a whole totalled only $558 million at the beginning of the year compared with more than $1 billion six months earlier. This indicates that the scramble for goods during the first peace year by distributors has now been followed by conservative buying, even at the risk of losing sales. While seasonal factors may partly account for this circumstance, certain manufacturers may view it constructively or otherwise in eyeing their inventories. Makers of goods certain to continue in scant supply for many months to come can count upon receipt of all the orders they can fill, and the same thing is probably true of producers of well known brands. Others in the newcomer class, however, or those affected by changing consumer preferences as in the textile industry, as well as others in highly competitive fields, have more occasion to be anxious if their inventories appear unduly expanded.

Soberly appraised, and generally speaking, no immediate danger from record peacetime inventories appears likely. The substantial uptrend in national income and abnormal demand for American goods from abroad makes it probable that, regardless of minor price trends, trade for the rest of the current year should be relatively stable. The price plateau upon which we have emerged and the heavy turnover of goods will mitigate against very serious change, although during coming months a further recession could give holders of large inventories considerable concern. Experienced managements have their feet on the ground during the process of adjusting inventories to meet the record demand. Take General Electric Co., as an example. Although inventories of this giant concern rose by $25 million during the first quarter, reaching an all time peace peak of $275 million, the management assures its stockholders that the increase was based upon entirely sound policies and quite warranted by business in sight.

In the final analysis, the consumer is the real arbiter of inventory problems. Given adequate income and a fair price level, co

tinued resistance against prices will diminsh and this will result in a normal flow of goods, thus voiding the problem of excessive inventories. There is plenty of business available at reasonably lower price levels. This plus the fact that American business ingenuity has always proven successful in quickly adjusting to changing conditions, creates confidence in the over-all inventory situation.

A Diversified Stake in Auto Accessories

(*Continued from page* 164)

months of 1946 and the first three months of 1947, the stocks in this group are selling at very reasonable prices. If we go back over a period of ten years and compare earnings with present prices of the shares, such prices would appear high. Nevertheless, even though lower earnings may prevail in later years—say three or four years from now, the market should give greater consideration to earnings of the nearer years. Moreover, the companies occupy good financial conditions and are in positions to pay a good portion of current earnings in dividends to shareholders. Therefore, the prospects appear to outweigh the risks involved. Such risks are primarily a degree of over capacity in the industry which tends to depress prices, especially for orders obtained from automobile companies. Thus, the shares are not of the type that can be held for long-term investment with assurance of substantial growth; but are more interesting for prospects of continued good current earnings and expectations of satisfactory dividend returns.

We have outlined some of the reasons why auto accessories stocks seem attractive for investment with the probability that they can be held for more than two years and afford the holder an interesting combination of yield and appreciation. The outlook for the industry is favorable, and under proper general market conditions new commitments are justified when our market article advises purchases.

Investment Reappraisal of Sugar Companies

(*Continued from page* 161)

Domingo as well as in Cuba, is expected to show further expansion over the $6.18 a share reported for the fiscal year ended last September. Although earnings of Cuban American Sugar have been more erratic than the industry in general, the outlook appears favorable for results well ahead of the $2.11 a share reported for last year and perhaps in excess of the $3.60 a share shown for 1944. Central Violeta also is expected to experience exceptionally favorable results with earnings probably in excess of the $5.59 a share reported for last year. Francisco Sugar is expected to show a similar trend and report earnings in excess of the $3.99 a share for the fiscal year ended June 30, 1946.

The outlook for Puerto Rican producers seems less satisfactory. Costs apparently have been relatively higher in that area and weather conditions less uniformly favorable. Central Aguirre is expected to show a substantial recovery from the relatively poor 97 cents a share reported for the year ended July 31, 1946. Fajardo is in process of consummating a

contact to sell its acreage to the Puerto Rican land authority. As a consequence, the earnings outlook is clouded. South Puerto Rico Sugar seems headed for another favorable year with earnings in excess of the $7.49 a share reported for the year ended September 30, 1946 but this company, in due course, seems destined to be compelled to dispose of its Puerto Rican acreage.

It is too early to hazard guesses on results this year of domestic beet companies, but the outlook would seem to justify hope of at least modest improvement over 1946. Great Western is the largest domestic producer and is believed to have earned about $2 a share for the year ended February 28, 1947. Results experienced by American Crystal Sugar and Holly Sugar for the fiscal year ended March 31 had not been revealed at the time of this writing.

Conditions outside United States and the West Indies gradually are returning to normal. In Hawaii where 1946 operations were seriously disrupted by prolonged labor dispute, the outlook this year is more encouraging. Although wage costs have risen, indications point to a normal production this year of close to 1 million tons and on the basis of current prices producers in the territory seem likely to experience a reasonably satisfactory year. Operations in the Islands are controlled largely by an association of factors. There is little public interest in stocks of publicly held corporations outside of the Pacific Coast area. Among the stocks in which there is some interest is Honolulu Plantations Co.

The near term outlook for important receipts of sugar from the Philippines and the Dutch East Indies is unpromising. The greatly reduced production of the Philippines as required for home consumption and exports to this country are not expected to reach sizable proportions until next year. In Java economic and political conditions remain unsettled. Meagre reports received by trade authorities indicate that there may be several hundred thousand pounds of sugar in Java but it is believed to be in poor condition and unavailable for export. Those in touch with Dutch commercial firms doubt that Java will become an important source of sugar for the rest of the world before 1948 at the earliest. Removal of these former important producing areas doubtlessly will permit Cuban and other off-shore producers to sell in the world market larger quantities of sugar than otherwise would be possible.

Answers to Inquiries

(Continued from Page 173)

the enrichment of flour and bread with vitamins and minerals. The company also manufactures a system of cooling and dispensing beer. The company was incorporated in 1928 and has paid dividends uninterruptedly, an annual rate of $2.00 a share having been maintained since 1939.

The net income for year ended December 31, 1946 was $2.08 a share compared with $2.63 in 1945 and $2.38 a share in 1944. Approximately 13% of 1946 net income represents net income of Canadian subsidiary, after translation into U. S. dollars at official exchange rate.

Consolidated balance sheet as of December 31, 1946 showed total current assets of $5,257,095, total current liabilities $1,931,093, leaving net current assets of $3,326,-002.

The 1947 earnings outlook continues favorable and the $2.00 regular annual dividend rate is expected to be maintained.

Coro, Inc.

Please report earnings, dividend and outlook for Coro, Inc., listed on the N. Y. Curb Exchange.

R.W., Montclair, N. J.

Coro, Inc., manufacturer and importer of novelty jewelry, beads and artificial pearls, reported net income of $2,172,251 in 1946, nearly 280% larger than the $586,-668 earned in 1945. The earnings equaled $4.53 a share on 478,515 common shares outstanding, compared with $1.22 a share in 1945.

Sales reached a new high of $20,145,108, compared with $16,-114,612 in 1945 when billings for munitions produced for the armed forces aggregated $2,676,158. The 1946 volume represented an increase of 50% over the civilian business — $13,438,454 — transacted in the preceding year.

Although capital outlays during 1946 were substantial, net working capital on December 31 last, fortified by proceeds from the sale of common stock last year, rose to $5,112,305, a new high, from $2,640,981 at the end of 1945.

Consolidated current assets on December 31, 1946 were $6,889,896 and current liabilities $1,777,590, compared with $5,494,415 and $2,-853,434 respectively, a year earlier.

Unit shipments to retail outlets in the three months ended March 31, 1947 exceeded those of the corresponding period in 1946, while dollar volume amounted to $4,797,-956, contrasted with $4,882,514 in the 1946 months. Indications point to fairly encouraging prospects for the immediate future, but general uncertainty respecting the long-term outlook obscures potentialities for the year as a whole.

Business was originally established in 1901. Dividends on present stock totaled 95 cents a share in 1946 and 55 cents a share, including an extra 15 cents was paid in February 1947.

A Study of the Rails

(Continued from Page 153)

stoppages in the current year have passed on a broad front, the heavy goods industries at least seem likely to establish all time peace records for production during the balance of the year. In a record year like 1944, the iron and steel industry paid out $500 million for inbound transportation charges and an additional $364 million for finished goods on the way out. With the automobile, machinery, farm equipment and construction industries apparently sure of good business for many months to come, the outlook for heavy freight traffic is exceptionally bright. In further support of this premise is the likelihood of another banner year for crops, the bulk of which must be moved by rail. Coal, iron ore and other mine products, which account for more than 50% of the total tonnage carried by the railroads, but less than 30% of freight receipts, will swell revenues impressively unless business activity tapers off.

Shortage of Modern Rolling Stock

One of the chief problems currently bothering rail managements is the relatively scant supply of modern rolling stock. The present cars in use include many more than half over 20 years of age, too, requiring expensive repairs and a lot of idle time in the shops. During the past 15 years freight cars dropped in number by 500,000 although both population and industrial production were on the increase. Right now the shortage is estimated at a minimum of 100,000 box cars and a total of 300,000 of all types. As capacity of the car building in-

dustry is rated at about 160,000 per year, there are signs that replacements must be slower than desirable. But more than 80,000 freight cars are now on order, and the steel industry has cooperated by allotting enough material to make 10,000 per month. Hence the trend of deliveries is steadily climbing and the enhanced supply will increase weekly carloading figures and help to boost revenues for their operators.

Under the abnormal pressure of wartime traffic, rail management achieved new standards of operational efficiency which are now proving valuable. For one thing, freight cars after unloading, are immediately refilled or shuttled promptly into service elsewhere, and this process is being hastened all over the country. As a result, the Association of American Railroads predicts that in the second quarter of 1947 carloadings will total more than 8.1 million compared with 6.1 million in the same period for last year. Percentagewise this would mean a gain of 33.2% and should be broadly reflected by increased gross revenues in every direction, although comparisons will be based on a poor period in 1946 due to the coal strike and general work stoppages.

Spending for Increased Efficiency

Of importance in the general picture, too, is the fact that the railroads spent more than $527 million last year on capital expenditures which should either tend to increase efficiency or to prove revenue producing. Better yet, during 1947 it is thought that gross capital expenditures may top $940 million or 78.9% above 1946. In scanning these huge figures it must be realized that at the end of last year, working capital of the Class 1 roads exceeded $1.9 billion, thus assuring them of ample funds. Additionally, the easy money market permits almost unlimited borrowing at record low rates to finance purchases of rolling stock. The cars themselves are considered a prime form of collateral. As outlays for freight cars alone during 1947 and 1948 are expected to exceed $650 million, it can be envisaged that if traffic holds up well, excellent revenue gains should be in sight as the new cars get into service. Competition from trucks on the highways, of course, will continue to cut into rail revenues, but costs of union wages have mounted so fast that the truck operators are no longer having the bonanza they once enjoyed.

As to passenger service, the railroads are girding themselves for an all out fight against the growing challenge from the air. Modernization of passenger cars is already reaching surprising proportions, with the expenditure of large sums for safer, faster and more comfortable transportation, and with other sizable outlays to straighten curves and to improve road beds and terminal facilities. As experience has taught that the most up to date streamlined trains have paid for themselves in a relatively short period, this has encouraged the roads to make plans for widespread extension of such service. Now that the Supreme Court has definitely assured the transfer of the Pullman sleeping cars to a group of roads, there seems no limit by which their construction may be improved as time passes. But whether in the long run passenger service may bring in adequate revenues to warrant the outlays, remains to be seen. On the longer hauls, at least, it may prove permanently profitable. In 1946 the roads spent $47 million for new passenger cars, as a start on their new program.

In the effort to bring down operating costs, the main reliance of the railroads naturally will be upon improved motive power, and in this respect they are implementing plans which may well result in solving many current difficulties. In the efficient utilization of freight and passenger cars,, power and speed of the locomotive make all the difference in the world on the longer hauls, while fuel costs and power count heavily in the shorter hauls and in switching. To this end, science has made strides in the recent production of Diesel powered locomotives of various size, from the 6000 h.p. turbine driven giants to the smallest switchers. The railroads have on order several hundred million dollars of this modern equipment, miracles of efficiency, and are spending large sums on research with promise of even better results. While a long time will be required before the great bulk of antiquated equipment can be replaced, it is certain that as longer trains are hauled at greater speed and at less fuel costs, the potential effect upon net operating income will be impressive.

In conclusion, it appears evident that the railroads have emerged from an exceptionally trying and abnormal period into one during which much better results can be expected, provided no major recession clouds the economy. In the strongest financial position in its history to modernize, this industry is in a good position to forge ahead. That experienced rail managements, despite a dismal return of less than 2.75% on their total invested capital last year, see better times ahead, is indicated by the tremendous outlays they are in the process of making. And as other forms of public utilities are allowed a return of from 5% to 6% on their capital, it seems likely that public opinion will demand equally liberal treatment for the Nation's carriers. In general it looks to us as if prices for the better grade rail shares have reflected unwarranted pessimism and that while bottom price levels may not have been quite reached, the time is probably near when with proper selectivity, some opportunities for good income and appreciation will present themselves. To this end the appended table may serve as a preliminary guide.

Treasure Hunt for Growth Companies

(Continued from Page 156)

fully meets several of the most strict requirements of growth situations. It is manufacturing new products, occupies a good competitive position, enjoys excellent management and growth in earnings; also in its favor since it caters to infants was growth in the birth rate to a new high in November 1946 Plant expenditures were about $1,150,000 in the past year in contrast to total plant expenditures of $1,360,000 in the thirteen years to mid-1945.

The company, greatly in favor with the medical profession, has an adequate plant completely equipped with chemical and biochemical laboratories for research purposes and is always on its toes for new products. It is a leader in the manufacture and sale of infant dietary products and vitamins (Mead's Dextri-Maltose, Pablum, Pabena, Lactic acid, protein milk and cod liver oil and oleum

percomorpheum). There are over thirty products, two important new ones, Amigen, which supplies amino acid and can be used in place of protein and Protolysate. The company anticipates that these two products will contribute substantially to the sales volume in future years. The marketing of five or six new products is contemplated during the coming year. It has subsidiary companies in Canada, Mexico, South America.

Mead Johnson & Co. common stock is selling at $26 after a decline of over 30% from the 1946-high price, and the current price is 14½ times 1946 earnings.

The features of Bond Stores, Inc. (incorporated in 1937 as a consolidation) which make it a growth situation, are the earning and dividend record and the reasons behind this credible showing. The only reduction in dividends was in 1942 to 80 cents, from $1 in 1941. In the first war year, to offset the decline in demand for men's civilian clothes, women's coats and suits were introduced and are now sold in all of the approximately 59 stores. The $1 dividend was restored in 1943, increased to $12.0 in 1945 and to $2 in 1946. The company manufactures women's tailored clothes in addition to its regular lines of men's clothing; sales include men's haberdashery, hats and shoes and women's accessories. Manufacturing facilities were increased through opening a new plant at Buffalo, N. Y. in October, 1946, and will be greatly increased when a new plant is opened in Rochester, N. Y. late this year. Moreover, the company is increasing its stores and oulets.

We suggest that investors join in the "Treasure Hunt" for growth companies. This can prove an interesting and profitable avocation. In later issues, when market conditions are more appropriate, we plan to present analyses of growth companies of the newer and therefore more speculative type.

Amazing Profit Record in Fortune Building Opportunities Following World War I

Common Stock	Cost 1921	Present Worth	Capital Appre-Ciation
Air Reduction	$3,050	$29,700	875%
Amer. Mach. & Fdry.	6,600	99,000	1,400
Case, J. I.	1,450	13,600	840
Coca-Cola	1,850	120,000	6,400
Commercial Credit	1,450	29,300	1,920
Continental Can	3,500	29,600	740
du Pont	10,600	264,600	2,400
Homestake Mining	3,500	33,600	860
Jewel Tea	350	15,750	4,400
Nash-Kelvinator	5,300	80,000	1,410
National Lead	6,400	57,090	790
Sears, Roebuck	4,500	52,800	1,070

Profits are figured on a 100 share basis including subsequent stock dividends and split up—but not including cash dividends paid.

Lower Prices Necessary to Bulwark Our Economy

(*Continued from page* 138)

reduction starts at the manufacturing level, the value of current cuts at the retail level may be of limited significance. The retailer quite likely may find it difficult to replace his goods at prices that will permit him to maintain his markdown. Already retail merchants are emulating their customers by buying cautionsly when at all. Like consumers, they are hunting bargains and have become selective almost to the point of exclusion. They are inclined to defer commitments to the last possible moment, convinced that downward price revisions have just begun. This attitude has already adversely affected production, particularly in textile lines. There is no blinking the fact that there is some danger in talks of price cuts that will make the consumer think that the whole price structure is weakening. Just as it has been stalling sales at the retail level, it has also affected the wholesale business. Industrywise, too, in a good many lines, planned production increases have been held back by fear of sliding prices, of enforced price cuts. While the ultimate effect may be salutary, price readjustment—while it lasts—simply cannot proceed without unsettling important segments of our economy. This of course is expected.

Influences now at work have much in common with those operative after previous wars. We are now facing, and endeavor to minimize, the initial postwar recession, a setback that is expected to be the prelude to the prolonged prosperity that has always followed in the wake of wars. If properly handled, it will be more a period of correction and adjustment than one of great disruption. To make it the former and avoid the latter, orderly readjustment to a lower price structure is essential.

Peaceful wage settlements in basic industries, permitting uninterrupted maximum production, and the downward pressure on prices have somewhat diminished the force of recent economic storm warnings but this is only the first step in what is hoped will be a continuing movement. To make it a success, we shall all have to tighten our belts, individually and collectively; industry by being content with a fair profit margin, labor by foregoing further wage demands, the farmer by all-out production at reasonable prices, the consumer by restraint in the purchase of goods that are still in short supply.

Above all, industry should clear the decks to cooperate to the utmost towards lower prices. It is time for it to plan for stabilization, for a sustained high level of business, rather than yield to the boom-bust psychology with its temptation to make the most of the sellers' market. It should establish fair profit margins for the long pull; in short, take a gamble on the future rather than think in terms of the present only. Labor should take the same gamble by being content with what it has achieved, and concentrate instead on stepping up productivity.

Free Enterprise Must Demonstrate Superiority

The task ahead, the problem of bulwarking our economy by restoration of economic stability, transcends mere business aspects. It has important political and social implications as well, both at home and abroad. At home, we cannot have social stability without a fair measure of prosperity. By the same token, only if we maintain our prosperity can we expect other countries to recognize the full merits of a free economy. In large parts of the world today, the system of private competitive enterprise is at issue. Only by applying it successfuly can we demonstrate to the world its vitality and superiority. We shall have won the test, if we can prove that it is more productive and more stable than any other economic system. In our foreign policy, too, to succeed we must remain sound, economically and financially, at home. It is obvious that we cannot undertake the heavy burdens of our new foreign policy without a stable and prosperous economy.

With Proper Responsibility Labor Will Go from Adolescenl Adolescence to Maturity

(*Continued from page* 143)

There is a need to protect the public, to protect the employer, and indeed, to protect union members from some of their leaders. But the problem is one of reform, not of annihilation. There was an eme

tional, vengeful spirit about the House's attack on a problem which requires expert, emotionless handling.

That the House reacted as it did is understandable. It was not merely the public's outrage over strikes which inspired the House. More than anything else, the Republican majority was angry at the CIO Political Action Committee. The PAC put Republican candidates to great expense, work and worry last year. The PAC took a bad beating and the pay off is not yet. Thus, while the House's reaction is understandable it is not healthy. The Hartley bill, if it became law, could cause quite an upheaval for a couple of years. It should be noted that employers who have matured in their relationship with organized labor are opposed to such legislation.

President Truman, however, is not likely to sign a labor bill, even one like the Senate measure. The Senate, it is believed, will not override a veto unless John Lewis is misbehaving.

So it is that predictions of what is to come in labor always get back to what Lewis is going to do. But Lewis is unpredictable.

However, here is an informed guess. If the situation develops to the point where a long coal strike is likely to force the enactment of a stringent labor law, it is probable that other labor leaders in the AFL will persuade Lewis to go easy and avoid antagonizing Congress and the public.

There is much that is hopeful. The fact is that a wage pattern for the country has been set for a full year. Labor and labor leaders on the whole are not strike-minded. They are looking forward to a year of production with the hope that it will yield some measure of the abundant life.

Wisest Market Policy Now

(*Continued from page* 135)

in a sellers' market for the rest of the year. Building activity is sagging. There has been a virtual collapse in demand for new homes, leaving a great many speculative builders "stuck." Advance rumblings suggest that something similar may hit the household equipment lines any time now.

True, recession in business and prices figures to be moderate—but not necessarily moderate in profits. For instance, from the second to the fourth quarter of 1937, the production index fell only 19%, the price index only 4.6%, but earnings of 200 large industrial companies fell 41%. From the fourth quarter of 1937 to the first quarter of 1938, production fell another 13%, prices another 4%, profits another 52%. And today, due to high costs, there is probably more "leverage" in profits than ever before. Profits today are also more "on paper" than they usually are. This is a fact which many investors are not sufficiently aware of. It rates some detailed discussion, which we will have to put over to the next issue, lacking further space now.

None of these observations on business proves the case for lower prices or disproves the case for a further market rise, so far as they can be applied at the moment. But they do, we think, point up uncertainty in the medium-term outlook.

— Monday, May 5.

As I See It

(*Continued from page* 133)

create havoc in the world so that they enforce their will on weak peoples. And, they are seeking by the most insidious type of propaganda to block our progress at home, and to create the impression abroad that we are so morally and socially degenerate, that we are unfit to take world leadership and that Russia is the only alternative.

For that reason we have got to assert the leadership that is rightfully ours and strike out on a path which Russia will be obliged to follow if she is to prevent an utter collapse or even a revolution in her country. It is too dangerous to wait on her any longer. By carefully planning and taking a step at a time in Europe without her—accelerating our pace in the Pacific where we hold the dominant position, we can quickly open and expand the avenue of two-way trade in that part of the world—import and export — with Australia, Dutch East Indies, the Philippines and Japan, which lean strongly to the western democracies. There is every possibility for a rapid improvement in trade already existing in these territories today, which are operated to a great extent under free enterprise, where the vital urge to rehabilitate and make progress are inherent in their philosophy. Exchange of trade would come about naturally in this part of the world since there is an enormous shortage in this country for a great number of the raw materials grown and produced there.

In the meantime, our new economic policy in Europe will begin to take shape with every possibility of a strong western block that will include France—if we do not weaken our position in Italy by ratifying the Italian treaty which would nullify our influence and upset the position we are seeking to build up in the Middle East—with its repercussions in the Pacific.

Russia has already made several moves indicating that the strategy of realism in dealing with the Kremlin is bearing fruit. Her desperate need for capital has forced

her to discuss the settlement of her long outstanding lend-lease account in an attempt to smooth the way for a loan—Russian delegates arrived unexpectedly to attend the European Economic Conference now going on in Switzerland, the bid to which she had ignored up to that moment. For Russia well knows she couldn't afford to be left out of an economic discussion of this kind.

It is well to accept the fact that the Soviets need peace with the opportunity it affords to recoup her losses as much as any other devastated land in the world. Her belligerent attitude, her marching soldiers and tanks, are merely a facade. Unable to wage war the Kremlin is, therefore, seeking to win by bold bluffing and undermining tactics. We are in a position to call that bluff and very simply too, by taking action without her and by pushing world trade along the right channels at this time. If we do, there won't be a catastrophic depression in the United States, and our success may well win over the Russian people, for they are not unaware of the advantages of freedom and better living that lie outside the borders of their police ridden country.

THIRTY FIVE CURB STOCKS
with a record of consecutive dividends for 40 years or more

The following list of 35 common stock issues, dealt in on the New York Curb Exchange have paid dividends each year for forty years or more. They are arranged in chronological order beginning with the issue having the longest record of payments. Note that the first four issues have paid consistently since Civil War days.

	No. of Years	Dividends 1946
Pepperell Manufacturing Co.	95	$2.50
Scovill Manufacturing Co...	91	1.80
Fire Association of Phila....	89	2.50
Singer Manufacturing Co...	84	16.00
United N. J. R.R. & Canal Co.	75	10.00
Camden Fire Ins. Assn......	74	1.00
Insurance Co. of North Am.	72	3.00
North Penn. R.R. Co........	68	4.00
Bell Telephone Co. of Can...	66	8.00
Providence Gas Co.........	66	.50
New Jersey Zinc Co........	65	3.00
Chesebrough Mfg. Co.......	64	(1)
Union Stocks Yards Co. of Omaha, Ltd.	63	3.00
Sherwin-Williams Co.	62	4.75
New England Tel. & Tel. Co.	61	6.00
Pittsburgh & Lake Erie R.R. Co.	61	3.50
New York & Honduras Rosario Mining Co.......	51	4.65
Draper Corp.	50	4.00
City & Suburban Homes Co..	49	.60
Philadelphia Co.	49	.55
Tampa Electric Company...	47	1.60
Goodman Manufacturing Co.	46	2.75
Hartford Electric Light Co..	46	2.95¼
Pittsburgh, Bessemer & Lake-Erie R.R. Co.	46	1.50
Hecla Mining Co...........	44	1.00
National Fuel Gas Co.......	44	.85
Amer. Light & Traction Co..	43	1.20
British American Tobacco Co., Ltd.	42	.46
Elliott Company	42	.50
General Electric Co., Ltd. (England) (Ordinary) ...	42	.37
Pratt & Lambert, Inc.......	42	2.20
United Shoe Machinery Corp.	42	3.12½
Quaker Oats Co............	41	4.50
Dominion Textile Co., Ltd...	40	5.00
Shawinigan Water & Power Co.	40	1.00

(1) Paid $1.25 on old stock and $2.60 on new stock in 1946. 2½-for-1 split-up in May, 1946.

Standard Oil Co. (N.J.) New 1946 Report

Data Supplementing Analysis in Previous Issue of The Magazine of Wall Street

"Jersey's" 1946 gross world-wide crude oil production, all in the Western Hemisphere, averaged 1,091,000 bbls. a day, an increase of 9.6% over 1945. Of this, "Jersey's" domestic affiliates produced an average of 429,000 bbls. a day for a rise of 1.4%; and foreign, 662,000, or 15.7% more, due to a rise in Creole Petroleum output. The need for capital expenditures is great since the special facilities installed during the war did not raise appreciably the crude-running capacity. Refinery runs, reaching a record level for the third consecutive year, averaged 1,198,000 bbls. daily, an increase of 7% over 1945. Domestic runs averaged 629,000 bbls. daily, an increase of 3.8% over 1945. Underground proved reserves, based on preliminary estimates, again increased.

Consolidated net earnings in 1946 amounted to $6.50 per share on the outstanding stock, compared with $5.64 per share in 1945.

Importance may be attached to the interest being acquired in Arabian American Oil Co. and Trans-Arabian Pipe Line Co. (The latter is undertaking construction of a 30-inch pipe line from the Persian Gulf to the Mediterranean Sea.) When a legal situation is clarified, "Jersey" and Socony-Vacuum will acquire, respectively, their 30% and 10% interest, and the proceeds will be used to retire the $102,000,000 guaranteed loan. Arrangements are pending for Trans-Arabian to borrow $125,000,000 guaranteed by the interested companies in proportion to their stock interests.

(000 omitted)

	Dec. 31, 1946
ASSETS	
Cash	$ 173,937
Marketable securities	358,070
Receivables, net	198,030
Inventories	293,043
Other current assets	....
TOTAL CURRENT ASSETS	1,023,080
Plant and equipment	2,652,053
Less depreciation	1,377,624
Net property	1,274,429
Other assets	362,479
TOTAL ASSETS	2,659,988
LIABILITIES	
Notes payable	4,744
Accounts payable and accruals	189,162
Reserve for taxes	90,143
Other current liabilities	....
TOTAL CURRENT LIABILITIES	284,049
Deferred liabilities	16,444
Minority interest	294,390
Long term debt	198,207
Owing to Standard-Vacuum Oil Co.	25,000
Reserves	186,576
Capital	683,344
Surplus	971,978
TOTAL LIABILITIES	2,659,988
WORKING CAPITAL	739,031
CURRENT RATIO	3.6

Interesting Circulars
FOR OUR READERS

☆ ☆ ☆

On request on your letterhead, but without obligation, any of the circulars listed below will be sent direct from the issuing firm. **Limit each letter to a request for one circular,** giving your name and address.

ADDRESS: Booklet Department — Magazine of Wall Street, 90 Broad Street, New York 4, N. Y.

SECURITY and INDUSTRY SURVEY. Analysis of 74 industry groups . . . facts on over 300 individual securities. Prepared by large N. Y. S. E. member firm.

Forging Ahead in Business — 64-page booklet describing program of executive training will be sent free when requested on your Company's letterhead.

ANALYSIS of the stock of a Chemical Company in the atomic field. Issued by a brokerage house.

Tobacco Shares: Timely Survey of leading cigarette companies indicating preference. Issued by N.Y.S.E. member firm.

If you own any insurance or intend to, you will want to see this booklet issued by one of America's largest insurance companies.

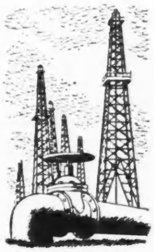
Also . . .

a REPORT to YOU

. . . the Public

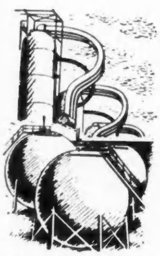
WE HAVE JUST MADE our Annual Report to our 300,000 stockholder-owners. The highlights of the 1946 operations we believe will be of interest to our employees and customers —present and prospective, who make the operations possible.

Cities Service Companies in 1946 . . .

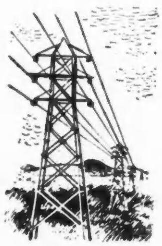


produced 26,318,000 barrels of crude oil and completed 173 new oil wells. At the year end, they held leases on 4,000,000 acres of oil and gas lands in the United States alone, of which 180,000 acres are now producing.

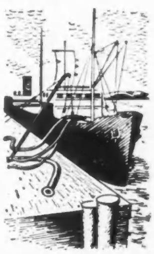
sold 276,000,000,000 cubic feet of natural gas, 4.5 per cent higher than the previous peak year of 1945, and served 554,902 domestic and industrial customers.



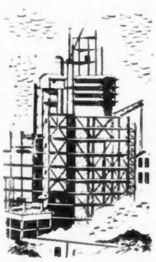
refined 57,613,000 barrels of crude, produced 27,974,000 barrels of gasolene, an increase of 865,000 over 1945. Production of butadiene for synthetic rubber also was up, and asphalt output increased 44 per cent.



distributed 2,277,814,000 kilowatt hours of electricity. Electric sales increased in all classes except power, which declined because of shutdowns in power consuming industries.

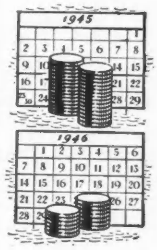


transported 159,000,000 barrels of crude oil by pipeline, an increase of 10 per cent, and 7,844,000 barrels of crude and finished products by tanker. Five new ships were added to the Cities Service fleet, and four old ones retired.



expended $33,000,000 for new construction and acquisitions, bringing the total for 16 years of depression, war and reconversion to $459,000,000.

marketed 2,500,000,000 gallons of petroleum products, more than half of it gasolene, also 148,000,000 gallons of natural gasolene and various liquid hydrocarbons and 3,000,000 gallons of finished chemicals. Cities Service aviation products are used by 4 airlines and by 37 airports in 11 states.



brought reduction of consolidated funded debt, notes payable and preferred stocks outstanding in the hands of the public to a 16-year total of $211,600,000.

BECAUSE OF THESE OPERATIONS, the Company is able to report that despite many interruptions caused by strikes and shortages in other industries, its net income on a consolidated basis was $27,253,000 in 1946 as against $15,060,544 in 1945; net current assets up from $149,528,000 to $175,563,000 and cash and government securities increased from $144,208,000 to $175,614,000.

The management, employees and dealers recognize the source of their well-being — our customers, who purchased a third of a billion dollars' worth of our products and services during the year 1946.

We appreciate this confidence and shall continue to carry on the policy of the founders—to be constantly on the alert to improve the quality of products, and to service their use so that the customer will obtain better and better values from them. The growing acceptance by the public of our 400 products attests the soundness of this policy.

CITIES SERVICE COMPANY

W. ALTON JONES, *President*